Annual Report 2011

SUPPLIER OF WORLD-CLASS PRODUCTS

About this report

This annual report presents Denel's financial, economic, operating, social and sustainability performance for the year ended 31 March 2011. It aims to provide a transparent, comprehensive and comparable view of the group's turnaround, operational and financial performance and outlook to a broad range of stakeholders. This report further aims to provide significant current and future challenges, as well as issues faced by the group. These take into account business priorities, risks and issues raised by key stakeholders.

This annual report takes cognisance of the integrated reporting requirements of the King III Report on Corporate Governance for South Africa, 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. 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 222 to 223. In line with Denel's inclusive approach, corporate contact details are provided on the inside back cover.




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Section one
Group overview

01

Ownership profile and nature of business

Denel (Pty) Ltd 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 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 Gauteng, North West Province and Western Cape Province within South Africa. The group has satellite offices in certain strategic areas outside of South Africa.

The Government of South Africa continues to be Denel's sole shareholder. The group reports to the Minister of Public Enterprises, who appoints the independent board of directors, which provides strategic direction and oversight to the executive management team responsible for the day-to-day management of the company.

Denel delivers a full range of aerospace, landward and maritime defence products. These include innovative technologies in specific niche areas, such as artillery, munitions, missiles, aircraft sub-assembly manufacturing, aircraft maintenance, unmanned aerial vehicles and optical payloads. In addition to specific development and production capabilities, Denel is a prime contractor in some of the SANDF programmes, which positions the group as a specialist contractor to global defence suppliers.

The group also supports the local commercial market by supplying non-defence products. Further details of the group's activities, products and services are provided in the *business entities' profiles* report on pages 42 to 53.

The group's *organisational structure*, reflecting its business entities, associated companies, reporting hierarchy and scale, is provided on page 12.


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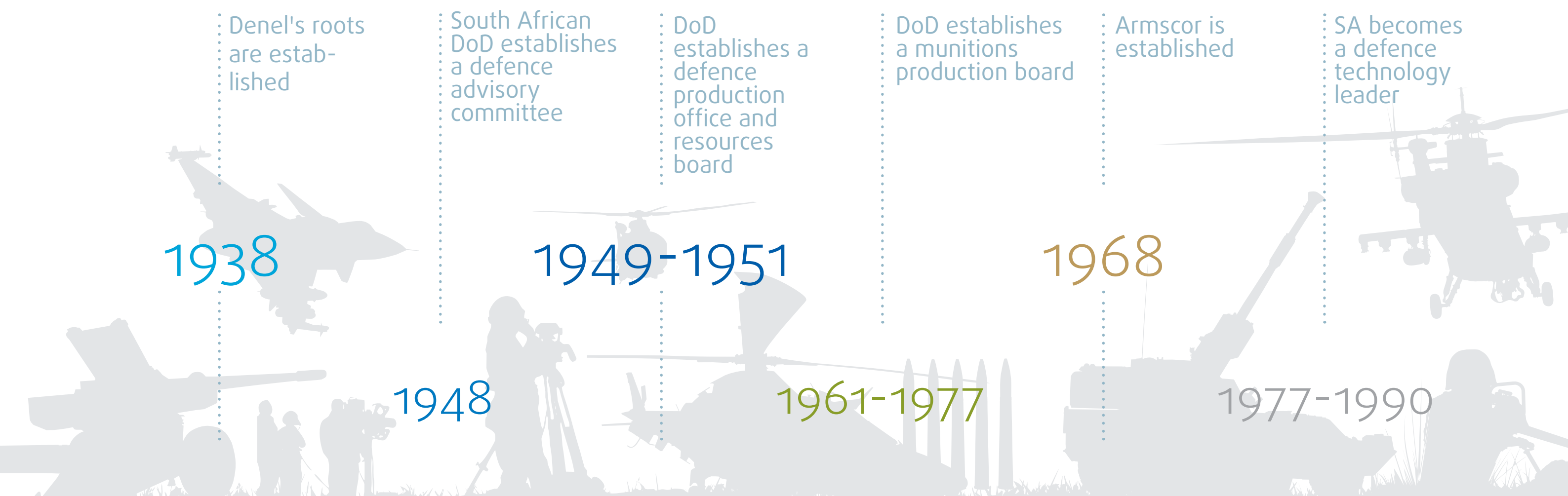
Historical overview



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

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

1949 to 1951
The South African Department of Defence establishes a defence production office and resources board to support 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
Armscor Act no. 57 of 1968 establishes Armscor to act as the manufacturer and procurement agency of defence equipment for the Department of Defence.

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
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 *organisation structure* section on page 12.

The manufacturing business units within Armscor are transferred to Denel (Pty) Ltd. There is a significant reduction in personnel, from 25 000 employees to 14 000 within the consolidated Denel manufacturing business entities.

- Denel Aviation (previously Atlas Aircraft Corporation, which included at its inception gearbox and engine activities, now the associated company, TMA, as well as aerostructures manufacturing that is now assigned to 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 amalgamating again)
- PMP (a division of Denel)

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

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

1992-2000 Unsuccesful attempts to counter difficult trading conditions

2001-2004 Total centralisation strategy

2005-2009 Implementation of turnaround strategy, restructing and decentralisation

2010-2011 Ongoing drive to improve operations

- Mechem (incorporated into Denel)
- OTR (previously known as OTB, a new test range facility was established in the early 1980s. With the demise of the then space programme OTR was transferred to Denel)
- Denel Munitions (previously comprising Swartklip, Somchem, Wellington, Naschem and La Forge facilities)

Details of other entities that were transferred from Armscor and subsequently transferred into standalone entities, outside of the Denel group, or closed, are not provided.

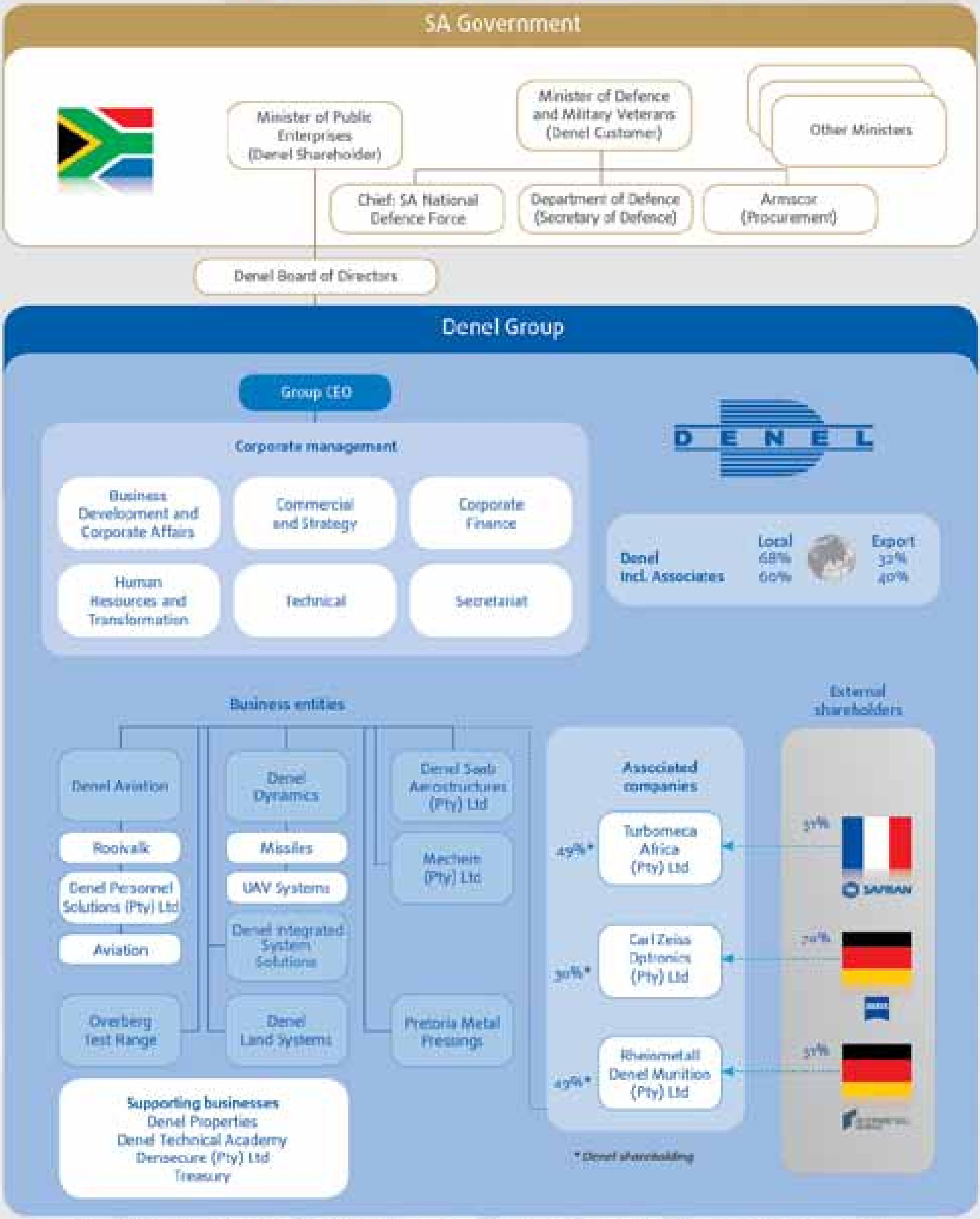
1992 to 2000
Certain facilities are closed. There are unsuccessful attempts to enter commercial markets with non-military products. The 1998 White Paper on Defence is promulgated with the aim of directing the restructuring and equipping of the South African National Defence Force (SANDF). In this era, approximately 70% of South Africa's defence acquisitions are imported. Loss-making contracts are entered into just to maintain capacity, resulting in legacy obligations that continue to impact Denel's business execution into the 2011 financial year. Research and development (R&D) spend is reduced.

2001 to 2004
A strategy centralising core activities is pursued targeting to improve financial performance. Denel experiences the loss of critical markets, encounters increased financial losses and solvency problems.

2005 to 2009
A turnaround strategy aimed at bringing Denel to profitability is launched. It includes rightsizing and managed decentralisation to improve financial performance and accountability. Selected equity partnerships are entered into with the aim of accessing funding, best practice business processes and new technology whilst securing new market access. Non-core, loss making assets and businesses are disposed of.

2010-2011
Ongoing efforts are underway to achieve operational excellence and cost effectiveness. These include cost optimisation initiatives and improving business development. Greater emphasis is placed on improving business development initiatives and ensuring better conversion of opportunities that are in excess of R40bn into orders.

Organisational structure



The group employs 6 675 (2010: 7 294) people, of whom 1 959 (2009: 2 204) are employed by associated companies.

Strategic objectives, vision and values

Denel's strategic objectives are to establish a financially sustainable organisation, while simultaneously fulfilling the greater objectives of being a responsible South African corporate citizen. Denel has developed strategic drivers and values to support its endeavours.

Strategic drivers

Improve access to sustainable markets

- Ensures increased focus on revenue, growth, new markets, leverage on partnerships and home market support. This is necessary as a result of low domestic defence spend inaccessible global markets and global industry consolidation negatively impacting the financial stability of Denel.

Achieve operational excellence

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

Deepen relationships with the defence community and state agencies

- Ensures that closer relationships are optimised leading to joint planning, export support, technology and intellectual property development, skills transfer and improved programme delivery.

Strengthen governance and financial management

- Ensures recommitment to operating as an ethical defence company while complying with applicable legislation. Support 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 building Denel's image as a respected South African company by excelling in areas including transformation, B-BBEE, and socio-economic development (SED). Further enhancing the public's awareness of the role played by Denel in the economy, peacekeeping on the continent and the country's security needs.

Vision, purpose and values

Denel's purpose is to provide strategic defence technology, product and service solutions to the South African Defence and Security communities and international customers.

Denel's vision is to be the respected South African provider of innovative defence, security and related technologies.

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.

Denel's Values:

Performance
We embrace operational excellence.

Integrity
We are honest, truthful and ethical.

Innovation
We create sustainable, innovative solutions.

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

Accountability
We take responsibility for our actions.

The main purpose of the Denel group is to provide the DoD with cost-effective, tailor-made defence solutions. These solutions enable the execution of SANDF missions, locally and internationally. Denel is a strategic asset of the Government of South Africa, not only for its role in national security, but also for its engineering, product development, advanced manufacturing and wider industrial base capabilities. The group contributes to industry based technologies and the associated knowledge base, resulting in significant intellectual property and human capital development. Denel also contributes to the broader economy through job creation, subcontracting and product exports which results in foreign earnings. Details of the group's key contributions to South Africa are provided in the *economic impacts* section of the *sustainability report* on pages 59 to 65.

Denel ensures strategic military independence for the country, whilst contributing to economic and social development. To ensure Denel is involved in areas over and above defence, the business entities have pursued diversification in the past, including joint ventures, or alliances with local and foreign civilian firms, or through the purchase of existing civilian product lines. Some Denel business entities have pursued diversification through spin-offs, by developing civilian products using existing defence technology and production facilities. A number of attempts to diversify were unsuccessful particularly those areas not complementary to Denel's technology. However, diversification as a strategy is being reconsidered through ongoing engagements with the Shareholder. There is a view that diversification may present a window of opportunity to further broaden revenue contribution.

Denel conducts R&D, which is a key contributor to sustainable investment success within the defence sector and which improves future performance as well as returns. R&D has a special economic significance apart from its conventional association with scientific and technological development.

As stated in the prior year's annual report, Denel is part of SADI which plays an important role in contributing to the South African economy. Its contribution to employment has been estimated at 30 000 highly-skilled technical jobs over the last 6 years. The defence industry is a fertile ground for nurturing engineers, technicians and artisans. Most of these technical professions subsequently contribute to key national projects in transportation, construction and power generation and wider general advanced manufacturing activities. By leveraging Denel's defence technology base, innovative applications have found application in rail safety, crime prevention and surveillance, protection of assets, mine safety management, mining drill-bits, commercial brass strips, and more.

A good example of Denel technology which can be applied for commercial use and environmental protection is in the area of combating rhino poaching. Denel offers some of the most sophisticated technology in the world and at least three of our business entities have the capacity to assist in fighting rhino poaching: Mechem using its sniffer dogs, Carl Zeiss Optronics, using its powerful "eye-in-the-sky" technology and Denel Dynamics using its unmanned aerial vehicles.

- In conjunction with the National Airways Corporation, Carl Zeiss Optronics has launched an aircraft, which is especially designed for day and night time operations in border control, nature conservation and anti-poaching operations. The aircraft has a short take off and landing ability and low-speed "loitering" capabilities which enables it to economically cover vast areas of terrain, providing excellent airborne video footage of poachers.

- Mechem has pioneered research into the use of sniffer dogs to detect explosives and ammunition. Staying one step ahead in the contraband-detection industry has led to the development of the Mechem Explosives and Drug Detection System. Through a vacuum system, air is drawn from suspected containers or vehicles and captured in specially filtered capsules. This prevents wearing out and injury of sniffer dogs which cannot walk on hot tar roads – something of which poachers are aware.

- Denel Dynamics is a leader in systems technology with its core business covering tactical missiles, precision-guided weapons and UAVS. UAVS have long been used for border control and other surveillance activities. These pilotless aircraft can operate in places that are dangerous for humans, and can remain airborne for up to 10 hours performing precise, repetitive scans of terrain, day after day, night after night in complete darkness or in fog. This technology has applications that go beyond the defence industry including the provision of unique and effective solutions.

There are inherent risks associated with the defence industry, 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 with regard to these risks. Its responses thereto are addressed throughout this annual report. It is important to state that Denel is an ethical defence company and strives to operate responsibly in accordance with applicable legislation. These are incorporated in the company values of performance, integrity, innovation, caring and accountability.

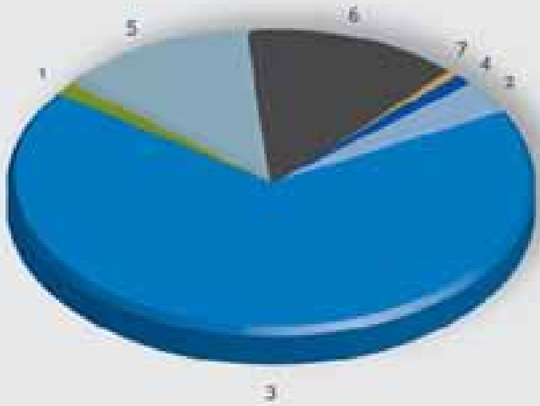
Section two
Financial overview

Financial highlights

- Revenue R3 252m
- Significant growth in order pipeline opportunities to over R40bn
- Significant R&D spend R789m
- Accounting gain on pension fund restructuring R463m
- Net profit R111m a significant improvement
- Cash generated from operations R178m, while overall cash utilised R23m a significant improvement
- Profit by Defence, Security and Certification clusters (before interest, tax, once-off items and DSA) for the second consecutive year R130m
- Income from associates R115m improves 46%
- Net loss posted by DSA R237m improves 28%
- Equity position R654m improves 7%

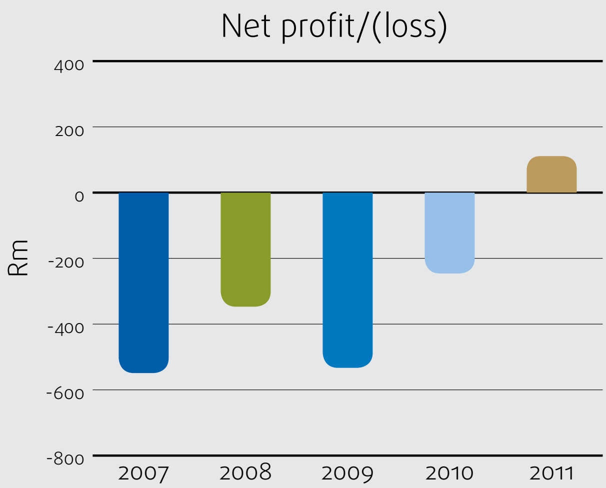
Key areas	2011 Rm	2010 Rm	Variance Rm
Income statement			
Turnover	3 252	3 610	(358)
Gross profit	503	578	(75)
Non-recurring items	357	10	347
Net loss before once off items	(246)	(281)	35
Net profit / (loss) for the year	111	(246)	357
Balance sheet			
Equity	654	609	45
Cash and short-term deposits	920	1 038	(118)
Interest-bearing borrowings	1 946	2 044	98
Ratios	%	%	%
Gross margin	15	16	(1)
Exports as a % of turnover	32	39	(1)

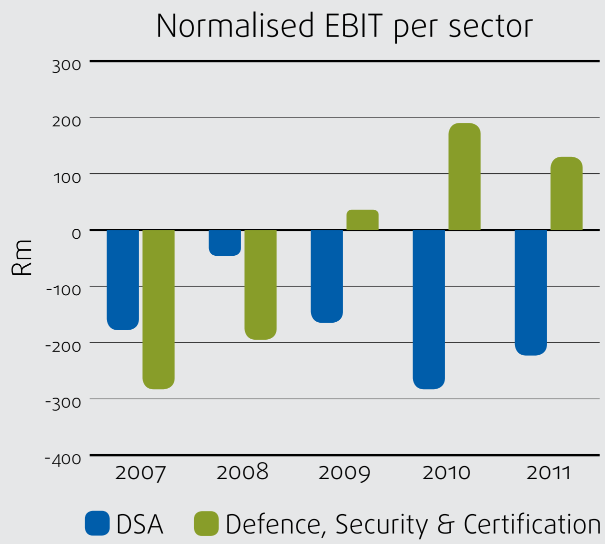
Denel has recorded a turnover of R3 252m, with a decline of about 10% from the prior year. This is due to delays in placing of major contracts, resulting in under-capacity of resources and the under recovery of fixed costs associated with retaining core competencies. The group is also experiencing fierce competition in its traditional markets that, together with the strong Rand, negatively impact profitability. Whilst, Denel lost some exports resulting in export revenue of R1bn (2010: R1.4bn), local sales of R2.2bn (2010: R2.2bn) were at the same level as in the prior year. Denel could not secure all orders expected from local and international clients which are strategic and key in enabling Denel to achieve its financial targets.



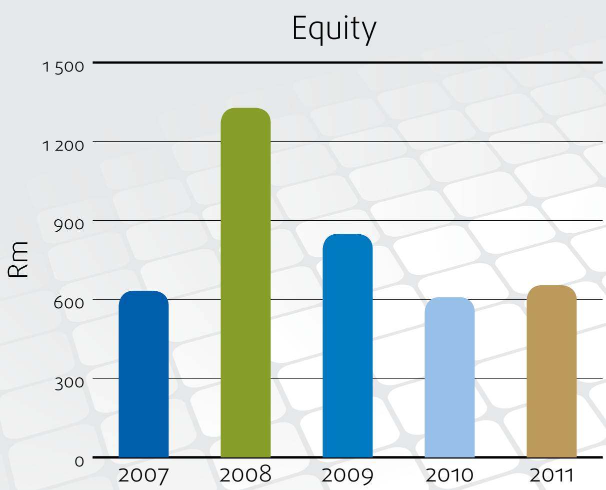
Sales per region		
1	Asia Pacific	43
2	Africa excluding North Africa	116
3	South Africa	2 207
4	South America	37
5	Europe	406
6	Middle East & North Africa	436
7	North America	7

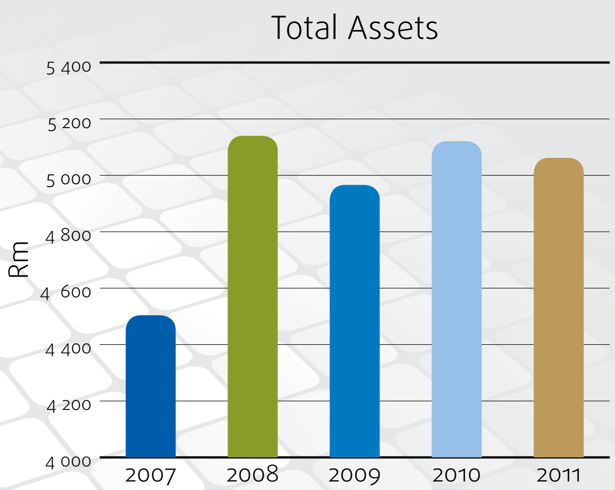
The current year financial results show a significant improvement when compared to the prior year, refer to the *directors' report* for details. However, the group's results are impacted negatively by the continued losses posted by DSA of R237m (2010: R328m) and interest on borrowings of R118m (2010: R139m). Denel's defence businesses, which account for over 90% of group revenue, have continued to post positive results.





The group's equity position has improved marginally after taking into account the net profit for the year and accounting for the share buy-back in one of the subsidiaries, with an impact of R66m. Details of the financial performance are disclosed in the *income statement* and share buy-back in note 22 to the *annual financial statements*. Assets remained stable from the prior year.

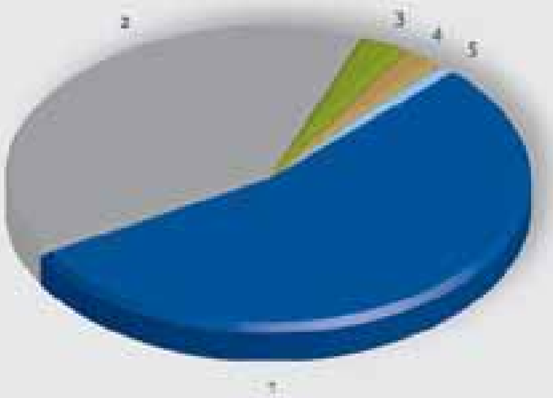




Economic value distribution

The group has continued to contribute positively to the economic environment by creating and distributing value. The economic value created and distributed is depicted in the graph below. Details are provided in the *economic impacts* section of the *sustainability report* on pages 59 to 65.

Denel's main areas of contribution are in cost of materials and services, salaries and related costs. The group subcontracts services from various sectors. These include the supply of consumer goods, high-tech development and production work. Denel has a workforce of 4 716 (2010: 5 090) employees. The graph demonstrates that, 62% of the value created is distributed to suppliers of materials and services, and 45% to employees.



Economic value distribution	
1	Cost of materials and services purchased, including R&D: R2 016m (2010: R2 136m)
2	Salaries and related costs: R1 467m (2010: R1 614m)
3	Providers of capital: R110m (2010: R120m)
4	Depreciation, amortisation and impairment: R93m (2010: R92m)
5	Government taxation: R35m (2010: R46m)

Key highlights for the year

include:

Rooivalk – Denel completed the upgrade to the 1F baseline of 5 aircraft by April 2011. The aircraft were delivered and the SAAF issued a full Military Type Certificate.

Hoefyster – The product base line (A) for the section variant of the project was successfully concluded, and presented to Armscor, which initiated the countdown to the production order. Denel is confident that all the development phase milestones will be met within the contracted timelines and that the production order will be received soon.

The continuous restructuring of Denel's Balance Sheet items and in particular contingent liabilities led to an accounting gain of R463m emanating from restructuring the pension fund, Denpen.

The cost optimisation programme has led to cost savings of approximately R140m, which were beneficial considering the impact of declining revenues and profitability.

Achieved level 3 B-BBEE rating.

A-Darter – The development of this highly sophisticated missile as a collaboration programme between the government of South Africa and Brazil is on track. The flight clearance and integration programme for carrying and firing the A-Darter from the Gripen fighter has been successfully completed, with final missile qualification and performance validation underway.

Concluded a significant contract negotiation with a client in the Far East, which will have a material positive impact on the revenue, profitability and sustainability of the group in the near future.

A400M – The customer baseline aircraft is now nearing completion and is due to fly in late 2011. During the year, DSA has consistently met all its technical milestones and delivered the second design baseline products ahead of time.

PMP – achieved over two and a half million accident free hours, putting it in the top safe manufacturing workplaces in the world.

Denel assisted in the successful Soccer World Cup hosted by South Africa. It contributed to safety aspects by applying a range of competencies including making it possible to protect air space through MRO work on military aircraft and stadium safety using Mechem's sniffer dogs.

Denel participated in the Metropolitan Oliver Empowerment Awards. Mike Kgobe, the CEO of Denel Aviation, was a recipient of the "Top Black Public Sector Executive" award at an event held in Sandton in February 2011.

Outlook

Although the group has posted a profit for the year, it should be noted that this year's financial performance has been underpinned by an accounting gain of R463m resulting from restructuring a pension fund. The group is, therefore, still in a loss making position. The group foresees difficult times ahead as detailed below, with the exchange rate in particular, continuing to negatively impact revenue and profitability:

- The state of the world economy continues to significantly restrain defence and military expenditure. Despite the order pipeline increasing, the conversion of the pipeline into orders remains a challenge over the short-to-medium term. This is expected to negatively impact the group's profitability, necessitating a focus on internal efficiencies, the conclusion of alliances to grow market access, the development of new technologies, and increasing urgency in closing key sales opportunities, in order to improve revenue levels.
- DSA remains the single biggest loss-making business entity and posted a loss of R237m (2010: R328m). Continued losses are projected over the next five years, highlighting that the funding for DSA needs to be resolved.
- Over the past few months political developments in some markets in North Africa and the Middle East are likely to impact future revenues and have a knock-on effect on the global economy.
- The statement of financial position remains weak as a result of high gearing which continues to negatively impact profitability of the group. The loan balance is R1.85bn, backed by Government guarantees, and results in an interest charge of R118m per annum. Denel does not generate sufficient cash to repay the loans or to even cover the interest charge.
- Recommendations of a task team regarding the future of the group (Denel End State) were tabled at Cabinet in June 2008. The full implementation of the memorandum was delayed pending a defence review. Although significant orders have been placed with Denel business entities by the DoD, not all aspects as recommended by the task team have been finalised.

Denel has identified specific strategic focus areas in response to these challenges.

- **Revenue and business development**
  - The continued implementation of a business development initiative that places an emphasis on closing key sales opportunities, penetration of niche markets and significantly increasing revenue. This includes securing of major contracts, such as GBADS II and Hoefyster.
  - Canvassing government support in finalising international defence deals to ensure better conversion rate. There has been a concerted effort by Denel and various state departments over the past few months to ensure closer co-operation.
  - Exploring strategic partnerships with reputable international industrial players to secure international market access, latest technologies and industrial modernisation.
- **DSA**
  - During the year, significant progress was made in restructuring this business including implementing measures to ensure cost reductions and operational improvements. It is clear that even with further restructuring and price negotiations of the A400M contracts, this business will continue to make losses. As a result various options are being pursued, including the disposal of the business, alternative funding models and price renegotiations with regards to A400M contract.
- **Operational improvement**
  - Denel continues on its path towards improved programme management through the completion of legacy contracts, better contracting (especially for development orientated programmes), lean manufacturing and improved risk management.
  - Denel continues to focus on operational efficiencies and improved working capital management through shared services, cost cutting and control, process improvements as well as better inventory management, to improve gross and net margins and cash flow management.
  - Denel continues to endeavour to improve its investment and access to R&D spend.
- **Funding**
  - The conversion of debt to non-interest bearing equity is essential for the group's long-term financial viability. Denel will continue its discussions with the Shareholder regarding a possible capital injection.

Section three
Directors' statements and profiles

Directors' Statements and Profiles

Chairman's statement

We are particularly pleased that our marketing strategies and efforts are paying off, as contracts of about R5bn have been concluded shortly after year-end.

Introduction

The financial results show a strong indication that the group continues to return to profitability especially in the defence business. On the other hand, the group's performance continues to be negatively influenced by the loss-making status of the DSA business with an impact of R237m, as well as the interest charges of R118m due to dependence of the group on borrowings.

The group continues to implement its strategy which is focused on growing the business and returning the group to profitability on a sustainable basis. We contribute to and strengthen the country's technological capabilities, by developing skills and creating jobs, thus addressing national developmental objectives. We are also considering areas wherein we could contribute to the wider manufacturing and technology base, through advanced engineering, technology and human capital.

Economic review

The net loss for the year, before a restructuring gain (discussed under restructuring below) and other once-off items, is R246m. The overall bottom line is positive at R111m for the first time in many years. This is due to improved financial performance by defence, security and certification business entities as well as restructuring gains emanating from a pension fund. However, it is negatively impacted by contract loss provisions raised in respect of certain projects at DISS and Denel Aviation, as well as a significant loss posted by DSA. It is worth noting that the operating results of the defence, security and certification businesses are positive for the second consecutive year. These financial results are encouraging in the light of a strong Rand and a fairly weak global economy.

There is no doubt that the most acute phase of the global financial crisis has passed. Having said that, it is apparent that economic recovery for the world as a whole and South Africa in particular, remains fragile. Market conditions continue to be challenged by the after-effects of the recession, resulting in delays in releasing major orders. The political instability prevailing in some Middle Eastern and North African countries is likely to have a negative impact on Denel's revenues. We further foresee robust competition both locally and abroad, thus forcing pricing and efficiency reviews. We are responding to these developments accordingly.

We are pleased that the relationship with our customers continues to improve, with particular reference to the MoD&MV. Our objective is to ensure that we always listen to our customers and find the best way to satisfy their needs. This is particularly important, considering that there are limited resources within the DoD requiring a balancing act when allocating funds for internal requirements, placing of orders with us and investment in R&D, which is necessary to ensure that the DoD is well-equipped. To this end, we are ensuring the alignment of our R&D investments with customer requirements, with particular emphasis on homeland security and renewal of landward capabilities.

Strategy

Whilst the opportunity pipeline stands in excess of R40bn, the order coverage going forward remains fairly low as converting opportunities to orders, takes an enormous investment of time and resources. The low order cover and continuing strength of the Rand presents Denel with financial performance challenges that impact sustainability, which is critical in retaining core competencies and capabilities that are strategic to the DoD. The support of Denel's marketing efforts by stakeholders are aimed at enabling Denel to secure certain international orders is considered important going forward.

The implementation of strategies to improve the group's access to sustainable markets is ongoing. This has led to the formation of alliances and partnerships focused on reducing reliance on the local market for orders. The impact of these partnerships together with cost optimisation, improved productivity and co-operation with the wider manufacturing sector, have ensured retention of key defence capabilities.

As a major player in the defence business in South Africa, we aim to be a customer-focused company which responds timeously manner to the execution and delivery of projects to our customers, which is innovative and provides niche capabilities. We are particularly pleased that our marketing strategies and efforts are paying off, as contracts of about R5bn have been concluded shortly after year-end as detailed in the *directors' report*. Owing to the long-term nature of our business, the relevant projects will be executed over the next five years contributing to advancement of technologies and job creation.

Operational review

As detailed in the *directors' report*, Denel is executing a number of defence programmes involving varying levels of system integration and complexity. We are involved in major projects that have an impact on whether we retain certain key capabilities within Denel or not. These are the Hoefyster and A-Darter development programmes, which are progressing towards production status. Despite the fact that there has been a delay in awarding the Hoefyster production contract, we are looking forward to being involved in the production phases of these programmes.

As we closed the last financial year, there were certain material risks in the Rooivalk programme. With written confirmation of the client's intentions for the aircraft we have continued with the Rooivalk programme. We are particularly pleased that the South African Air Force took delivery of the first five fully-certified Rooivalk helicopters during April 2011. The remaining six helicopters are scheduled for delivery during the 2011/12 financial year.

However, both GBADS and the Drummer 2 programmes have experienced technical problems resulting in a requirement for

additional time and funding to bring them to completion. As at the date of this report, we have not managed to secure the contract variation orders and additional revenues to mitigate potential contract losses. These are duly accounted for and included in the *income statement*.

DSA's financial performance remains a major concern, with this business posting losses of R237m (2010: R328m). Had DSA achieved breakeven or not formed part of the group, Denel would have posted a net profit of R348m. This business experiences order shortfall problems exacerbated by the delay of the A400M project at the request of Airbus, the customer. Restructuring of this business continues to improve efficiencies and reduce financial losses. Notwithstanding these efforts, this business entity still requires significant shareholder funding over the next five years. Discussions have, therefore, commenced with a local aerospace company following an offer received for the business. If the deal is concluded, it will mean retaining the work packages within South Africa, drive industry consolidation and improve the global positioning of the local industry. It should be noted that there are suspensive conditions and finality has not been reached at the date of this report.

We have stabilised debt levels and the debt funding balance has remained at R1.85bn, resulting in an annual interest charge of R118m. We are pleased that our Shareholder has continued to support Denel, with renewal of the government guarantees that support our loans for a further 18-month period, expiring on 30 September 2012. We have continued discussions with the Shareholder regarding the need for a capital injection. However, due to the wider financial challenges confronting the fiscus, the requested relief has not been granted at this stage. As detailed in the *director's report*, the board is satisfied that the company is a going concern.

Restructuring

The financial results were enhanced due to cost containment initiatives embarked upon during the year, with emphasis placed on reducing operating costs and ensuring supply chain effectiveness. In addition, Denel has focused on restructuring its business over the years. During the year, Denel reached an agreement with the trustees and members of the pension fund Denpen, that it will become a members' only fund, relinquishing Denel from a funding obligation going forward. In essence, Denel withdrew from the fund as principal employer, the surplus was shared between fund members and Denel on an equal basis. The agreement with the trustees of the fund and the entire restructuring plan was approved by the relevant regulator. Denel's portion of the surplus amounted to R463m, and has been included in the *statement of comprehensive income*. The cash impact will be realised over the next four years through a pension fund contribution holiday.

Regrettably, there were negative impacts on employment levels in some of our business entities, primarily Denel Aviation and DSA.

Sustainability

We recognise the potential impact of Denel's activities on people and the environment, both at present and in future. We commit ourselves to conducting Denel's business in a responsible manner with consideration for the consequences of our actions or omissions in the longer term. The long-term sustainability is intricately linked to caring for the environment and our people, thus impacting the financial and technical decisions that are made by the company. The sustainability is detailed in the *sustainability report* on pages 56 to 119.

Governance

The board composition evolved during the year. I, therefore, welcome three new members, namely Ms Bulelwa Paledi, Ms Martie Janse van Rensburg and Prof. Tshilidzi Marwala, who joined the Denel board during August 2010. I would like to also take this opportunity to welcome the incoming members, as some of us pass on the baton. I wish the new members well as they discharge their responsibilities.

There were five members who retired from the board in August 2010, namely Ms Chantyl Mulder, Mr Seth Phalatse, Mr Bengt Halse, Ms Tebelelo Seretse and Mr Cedric Savage. It would be remiss of me not to thank these outgoing members for their dedication, commitment to good governance and significant contribution to the turnaround of the Denel group.

I thank our outgoing group chief executive (GCEO), Talib Sadik, for his valued service, commitment and leadership over the past years. The board has, indeed, commenced the process of identifying a suitable candidate for the GCEO position. In this process, the board is taking into account wider group succession arrangements. As this process is still in progress, the incoming board will take this process forward and make the appropriate announcements regarding the successor once the appointment is finalised.

Appreciation

During the year, the President appointed new Cabinet Ministers including the Minister of Public Enterprises, Mr Malusi Gigaba and his new Deputy Minister, Mr Ben Martins, who are our Shareholder representatives. We welcome the new Minister, his Deputy Minister and the new Director General. We bid farewell to the former Minister, Ms Barbara Hogan and her Deputy Minister.

The board extends its heartfelt thanks to the Minister and the Department of Public Enterprises officials for their commitment to the Denel cause during the current financial year. We wish to recognise the Minister and Deputy Minister of the MoD&MV, as well as the Secretary of Defence and officials of the MoD&MV, the SANDF and Armscor for their continued support, guidance and commitment to Denel throughout the year, whilst acknowledging the support received from National Treasury.

Denel's executive management team is congratulated on the progress made during the year. The executives in the business entities and all employees, similarly, deserve a huge 'thank you' for their efforts, loyalty and commitment. The board acknowledges that success of any business is built on the hard work, creativity and commitment of its workforce.

Dr SP Sibisi
Chairman

Denel board of directors

1. Dr SP Sibisi (56)

BSc (Hons) in Physics, Mathematics: Quantum Field Theory and General Relativity Part III, PhD

INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE DENEL BOARD

OTHER DIRECTORSHIPS: President and chief executive officer of CSIR, non-executive director of Liberty Life, Murray & Roberts, Roedean School (SA) and Termico and Trustee of Sibusiso Sibisi Family Trust.

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 as a systems engineer, lecturer and researcher, as well as business management, entrepreneurship and strategist.

PUBLICATIONS: Compiled a number of publications and research documents, as well as contributing to reports and newspaper articles. 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 board on 1 June 1998 and as chairman on 1 August 2005.

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 business entity boards, non-executive director of DSA.

OTHER DIRECTORSHIPS: Non-executive director of Tohoko Properties and Vaximax Investment.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategy development and execution, business management, corporate governance, corporate and financial management.

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

3. Mr F Mhlontlo (42)

BCompt, 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 PMP, Denel Properties and RDM and Trustee of Denel Post Retirement Trust.

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 process and strategy formulation.

Appointed to the board on 1 November 2008.

4. Ms SH Chaba (53)

BA (Economics and Industrial Psychology), Postgraduate Diploma in Human Resource 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 (Pty) Ltd and DTA.

OTHER DIRECTORSHIPS: Non- executive director of Akwaba Investments, Diabela Investments, Hitachi Power Africa, member of Johannesburg City Council, deputy Chairman of Kgosi Foundation, non-executive director of Makotulo Investments and Services, Arion Bomema Technology, SAFRICAN, Seadimo Chaba Consulting, Tshepo & Ntsho Trading.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership, business management and human resources management.

Appointed to board: 26 January 2007.

5. Dr GC Cruywagen (55)

MSc, PMD, PhD, 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 PMP, non-executive director of DSA and Denel Dynamics.

OTHER DIRECTORSHIPS: Chairman of group risk management committee: City of Johannesburg, Trustee: GCM Trust, Tsogo Sun Group Medical Aid Scheme and Tsogo Sun Pension Fund, director of Tsogo Sun group (Tsogo Sun Holdings), Executive director Tsogosure Insurance Company Ltd, member of the King III committee on Corporate Governance, and convenor of the Risk workgroup of the King Committee on Corporate Governance (King II and III).

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership, risk governance, risk management and risk financing. Won the 'Risk Manager of the Year' award for 2009, from the Institute of Risk Management of South Africa (IRMSA). Wrote a book titled 'Jungle Risk Management'. Principle author of the King III chapter on 'Governance Risk'.

Appointed to the board on 4 September 2008.

6. Mr A Hirsch (56)

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 Denel Aviation.

OTHER DIRECTORSHIPS: Former chief director at the Department of Trade and Industry, 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 14 April 2005.

7. Mr LC Jones (63)

BSc Eng (Elec), MSc (Computer Science)

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Group audit and risk committee member, chairman of DSA.

OTHER DIRECTORSHIPS: Non-executive director of Saratoga Private Equity, and alternate non-executive director of Tellumat member of Blue Jay Bed & Breakfast and Kitchen Compost.

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.

8. Mr NR Kunene (58)

Studies in law, Certificate in Industrial Relations

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD MEMBERSHIPS: Chairman of Denel Dynamics and DLS.

OTHER DIRECTORSHIPS: Chief executive officer of Kunene Brothers Holdings, Kunene Industrial Holdings, Kunene Motor Holdings, Kunene Finance Company, non-executive director of 3C Telecommunications, Cell C, CellSAF, Grintek Ewation, OB Investments, Virgin Mobile.

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 board on 19 October 2006.

9. Prof T Marwala (39)

BSc Mech. Eng, Masters Mech. Eng., PhD Computational Intelligence Eng. Systems, Post Doc in Information Technology

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD MEMBERSHIP: Member of group audit and risk, chairman of DISS and non-executive director of DLS.

OTHER DIRECTORSHIPS: Chairman of Committee of Deans of Engineering of South Africa, Member of South Africa's Department of Higher Education and Training Research Output Committee, Member of Limpopo Premier's Employment Growth and Development Strategy Advisory Council, Deputy Chairman of Knowledge Enabled Industry Technical Working Group, Member of EOH, Member of City Power Johannesburg, Trustee of the Bradlow Foundation, Member of South African Academy of Engineering, Trustee of Carl and Emily Fuchs Foundation and has held various non-executive director roles.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, relevant industry skills as an engineer, business management, lecturer and researcher.

Appointed to the board on 27 August 2010.

10. Ms B Paledi (40)

BA, LLB, LLM (USA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Group personnel and remuneration committee member, non-executive director DSA and Mechem.

OTHER DIRECTORSHIPS: Metropolitan, former director of International Bank Vaults, non-executive director of ICC (DBN), Executive Director Ndamse Inc and Faku investment Holdings, member of Qiniseka Investments.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, legal and business management.

Appointed to the board on 27 August 2010.

11. Ms MJ Janse van Rensburg (54)

Bcom, Bcompt (Hons) (CTA), CA (SA), Executive Leadership Programme

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Chairman of the group audit and risk committee.

OTHER DIRECTORSHIPS: Non-executive director of ACSA, Chairman of the board of JHB Water, NMI Namibia Group, Headstream Holdings. Chairman of the audit and risk committee of ACSA, NMI Group and Quartile Capital. Former CEO of TCTA and has held various non-executive director roles.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership, financial management, governance expertise, knowledge of business processes and strategy.

Appointed to the board on 27 August 2010.

Group chief executive officer's report

Denel is proud to announce that it has achieved a profit of R111m, for the first time since 2001, and a significant decrease in its cash utilisation.

Introduction

As a result of focus, discipline and dedication of every employee, Denel is firmly on the path to self-sufficiency, prosperity and sustainability and becoming a respected South African company, with a global footprint. Our organisation's progress is backed by a vision and mission which is clearer than ever before. Our values of performance, integrity, innovation, caring and accountability are embedded in how we do business and driving a culture of value creation through the implementation of the group's strategic drivers. Whilst these are positive developments which lend credence to the direction taken by the company, Denel's long-term existence continues to be challenged by its loss-making aerostructures business and the group's dependence on ongoing external borrowings.

Despite a number of challenges, Denel has achieved significantly improved financial results for the year. In addition, as a state owned enterprise (SOE), the objectives of contributing to the requirements of the SANDF and the New Growth Path are being implemented across the group with sustained vigour. In particular, interventions aimed at improving our technical capacity and B-BBEE to the benefit of our client base are yielding positive results.

Financial highlights

Denel is proud to announce that it has achieved a profit of R111m, for the first time since 2001, and a significant decrease in its cash utilisation. This is a significant improvement over the previous year, particularly when the impact of the recent global economic slowdown, the strong Rand and the country's level of defence spend are taken into account. Even though revenue declined by 10% in the period under review from the previous year, the improved performance can be ascribed to the continued implementation of the group's turnaround strategy, including creating an entrepreneurial culture, ensuring accountability and driving a high performance culture.

The improved financial performance is also due to a significant accounting gain of R463m resulting from the restructuring of Denel's pension fund. Our strategic equity partners in selected businesses have contributed significantly through increased access to markets (in particular NATO markets), in-country intellectual property development, new technology, industrial upgrading and improved profitability. In addition, improved efficiencies through better programme management and group wide cost optimisation initiatives have resulted in a below-inflation increase in operating costs.

Denel's defence, security and certification clusters recorded a normalised profit before interest of R130m (2010: R190m). We are diligent in our efforts to improve the financial results of business entities, as the custodian of core strategic defence capabilities and a valuable contributor to the South African economy. Unfortunately, despite the sound performance of the majority of Denel businesses, the financial results are still heavily and adversely impacted by the loss-making status of DSA. A further burden is the significant interest expense incurred in servicing external loans. This situation is not sustainable in the medium-to-longer term, requiring drastic measures to secure the future of the organisation, including the engagement with the Shareholder on recapitalisation. Detailed financial analysis is provided in the *directors' report* page 125 whilst the trend analysis on pages 19 to 20 confirms that Denel continues on the path to financial recovery.

Highlights and challenges

The group's *key highlights* and challenges are detailed in the *financial overview* section, page 22, and in the *business entities profile report* in pages 42 to 53.

Denel is experiencing growing competition in its traditional markets as more and more governments and OEMs are targeting a foothold in these territories. Rising to the challenge, the group has intensified marketing efforts, the result of which is an opportunity pipeline estimated at more than R40bn. Given the complexity of converting opportunities into firm orders, which often depends on Government-to-Government interaction, Denel continues to improve its efforts to secure closer co-operation with key Government departments. Our efforts to improve business development are complemented by an internal focus of cost-cutting and efficiency improvement initiatives to ensure that Denel becomes a more competitive organisation.

DSA remains the single biggest strategic challenge to the group. This business entity is plagued by an inadequate order pipeline, a lack of offset opportunities and sub-optimal pricing under the Airbus A400M supply contracts. Despite the continued setbacks and challenges posed, progress was made in restructuring the business. Key initiatives included reducing staff costs through a 50% reduction in employee numbers, outsourcing non-core activities, space optimisation and the implementation of shared services, which have resulted in a significant improvement in DSA's financial performance. Meanwhile, the operational turnaround of the business continues with a marked improvement in delivery and quality. Airbus, in particular, has expressed satisfaction with DSA's performance against key milestones on the A400M programme. Notwithstanding all actions on the Airbus contract, the contract remains onerous and the business will continue to be loss-making over the next five years. Solutions are being sought including continued discussions regarding separate funding for DSA from government, possible industry consolidation by disposing of the capability to a local aerostructures industry player or pursuing A400M contractual price re-negotiations with Airbus.

Denel has experienced outstanding performance that exceeded expectations on some major programmes including Rooivalk, Hoefyster, A-Darter and Umkhonto. However, our key projects remain long-term and complex with a significant developmental component. Some of the Denel programmes experienced technical challenges resulting in delays, most notably phase 1 of the Ground Based Air Defence System (GBADS I) and the Oryx Avionics upgrade (Drummer II). A revised technical baseline for system delivery on GBADS I was approved. However, the client confirmed that no additional funding will be made available, resulting in a loss of R79m . Denel will continue with its commitment to complete the programme. It also became apparent that additional development engineering and flight testing are required to complete the Drummer II project, resulting in an estimated R140m provision for projected cost overruns. More detail on these programmes is provided in the *directors' report*.

As an organisation we continue to challenge ourselves. The table below depicts some of these goals and achievements for the year:

Objective for the year	Achievement
• Improve financial performance and reduce the net loss.	• The net loss improved from R1.4bn in 2006 to a profit of R111m. • The opportunity pipeline increased to more than R40bn, with significant opportunities in the Middle East and Far East concluded after year end. • Major export orders were secured in 2010/11 amounting to R5bn. • R793m was spent on R&D (including client and self-funding). • The group wide cost optimisation initiative delivered savings in excess of R140m during the year.
• Maintain our B-BBEE rating at level 4.	• The Group achieved a B-BBEE rating of 3.
• Improve programme management and service delivery and maintain a high performance culture.	• 90% of all technical milestones compared to a target of 85% have been met.
• Live our vision and values as a respected South African company.	• Over the last year, we have seen an encouraging upward trend in positive media coverage about Denel, our business entities and our products. In addition, Denel has managed to improve its governance and compliance processes.
• Enhance our SED contributions in support of wider government initiatives, such as skills development and poverty alleviation.	• Denel continues to contribute to the economy, social development and protection of our environment in South Africa. For details refer to the *sustainability report*.

Strategy

Volatility continues to define the global economy, with sovereign debt and the consequent austerity measures undertaken by many countries presenting looming challenges. Debt to GDP ratios are very high in developed countries. The need for bail outs in certain countries in Europe is continuing. In such an environment, tightening of defence budgets is taking place whilst procurement is likely to shift to local firms. As governments deal with these difficulties, increased competition in Denel's traditional markets is inevitable. Whilst South Africa has proven resilient in the face of the global financial crisis, it is not immune to the current volatile global economy. Government, already juggling with the priorities of social security, healthcare, unemployment, the need for significant infrastructure investment and many other pressing issues, is reducing defence spend in real terms.

As a high-performance organisation, Denel accepts that it must rise to these challenges by becoming more efficient, competitive and agile. It is therefore actively seeking new markets and clients outside of its traditional base. From the quality of our products to the reliability with which we serve our clients, our ability to manage our programmes and engage with our stakeholders, Denel is an organisation which lives its vision and values. We are all aware of the highly competitive environment within which we operate, but we are ready to take our place as a winning competitor.

The turnaround strategy, which is already delivering results, is positioning the business well for this radically changed environment, bringing greater passion and the quest for excellence into all aspects of the Denel group operations. The main emphasis of the turnaround strategy is on increasing access to sustainable markets, operational excellence, deepening relationships with the defence community and state agencies, governance and financial management and being a respected South African company.

Strategic and restructuring initiatives undertaken during the year include:

- The launch of an integrated strategy execution initiative to ensure sustained focus across the group on Denel's strategic drivers.
- A revised business development operating model, resulting in streamlined co-ordination and business development processes across the group.
- A review of the effectiveness of business entity supply chains was carried out. This was followed by the development of a new supply chain model which will exploit synergies across the group.
- Deep restructuring and turnaround drives at Denel Aviation and DSA.
- A cost reduction drive across the group.

Although Denel reported a profit for the year it is important to keep in mind that the normalised position of the group is still loss-making. Our key strategic focus areas, to continue our turnaround for the coming year, are as follows:

- Revenue growth and business development - embedding the group's business development model aimed at securing multi-year local orders to ensure the sustainability of core strategic capabilities and penetrating international markets.
- DSA - ongoing restructuring in parallel with exploring other funding and shareholding alternatives.
- Finalisation of the Denel End State including the classification and funding of key capabilities, securing minimum and multi-year orders and securing key contracts.
- Engaging stakeholders on possible strategic equity partnerships in selected businesses and or leverage on existing relationships to improve market access, technology know-how and funding.
- Operational improvement - an ongoing cost-cutting drive across the group, focusing on shared services, supply chain management and working capital management. Continued improvement of project management, risk management, contract management and quality management.
- Funding - resolving Denel's funding challenge to reduce debt and meet the funding requirements of DSA.

More detail on these issues is provided in the *group overview* and *directors* section of this report. Going forward, Denel should build on its strengths and we have many i.e. the quality of our human resources; we have some of the best engineers, scientists and artisans in the world; the standard of innovation and the quality of our products; and being a reliable supplier providing excellent service. All of this helps to establish ourselves in the global market and take therein our rightful place.

Going concern

Denel has improved its solvency position during the past financial year, ending with Shareholder's equity of R654m (2010: R609m). We are pleased that Government guarantees totalling R1.85bn in support of Denel loans were rolled over for an 18 month period, with an expiry date 30 September 2012. However, the group's statement of financial position continues to be weak due to high gearing, with interest charges on external borrowings of R118m per annum.

The group is liquid and able to meet its liabilities as they fall due. This is attributable to improved working capital, better cash flow management, cost reductions and enhanced operating efficiencies. We have met and reported matters relating to cash flow and solvency to the Shareholder, which continues to express its support for the organisation. The Shareholder continues to be made aware of the necessity for further capital to enhance the statement of financial position.

People and transformation

Denel believes that strong leadership is a critical imperative for success and has developed a leadership and management competency model aimed at fostering the behaviour and competencies that lead to superior performance. Looking back on our journey, Denel's leadership can be proud of what was achieved under very difficult circumstances. Denel remains committed to the development of its employees, the transformation of its workforce and an open, honest and productive relationship with all employees. During the year, priority areas included improvements of the organisational climate, ensuring a high performance culture, skills development, talent management, succession planning and achieving a group B-BBEE score of level 3. Despite the challenges faced, it is anticipated that with improving financial results, Denel will expand its skills development initiatives.

Sustainable development

Denel recognises the importance of sustainable development. The impact of financial and economic decisions on our environment and community is considered in the actions taken by the group. As a responsible organisation, Denel seeks to conduct its business in a sustainable manner to preserve the future for all stakeholders by making positive contributions to its economic, social and natural environments. Specific measures have been implemented to ensure the responsible use of scarce natural resources and caring for our environment so that we will not fail the expectations of future generations.

To underpin sustainable development, Denel engages with its stakeholders, shareholders, clients, employees and the public at large on a regular basis. In these engagements, material issues and embedded business processes are considered, as are all aspects of sustainable development, including corporate strategy, effective risk management, human resources and transformation, occupational health and safety, targeted SED, governance and environmental management. More information on the material aspects and sustainability focus areas of the group are provided in the *sustainability report* on pages 56 to 119.

Appreciation

I would like to extend my heartfelt thanks to my executive team, business entity chief executive officers and Denel employees, who once again made it possible for Denel to report improved financial, operational and governance results for the year. I bid farewell to our outgoing board members and welcome the new board members, the new Minister, Deputy Minister and the Director General of the Department of Public Enterprises. I wish to express my sincere gratitude for the support I received throughout the year. I extend my appreciation to the Minister of Defence and Military Veterans, Secretary of Defence, SANDF, Armscor, organised labour and Denel's other industry partners for their support and contribution.

MT Sadik
Group chief executive officer

Denel Executives

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 DSA.
OTHER DIRECTORSHIPS: Non-executive director of Tohoko Properties and Vaximax Investment.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategy development and execution, business management, corporate governance, corporate and financial management.
Appointed to the board on 19 October 2006 and as group chief executive officer on 1 October 2008.

2. Mr F Mhlontlo (42)
BCompt, 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 PMP, Denel Properties, RDM and Trustee of Denel Post Retirement Trust.
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 process and strategy formulation.
Appointed to the board on 1 November 2008.

3. Mr AS Burger (53)
BEng (Hons) Mechanical
CHIEF EXECUTIVE OFFICER OF DENEL LAND SYSTEMS
DENEL BOARD AND BOARD COMMITTEES: Non-executive director of DISS.
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.

4. Mr I Dockrat (41)
MBA, Certificate in Programme Management, NDip Electronics Engineering
CHIEF EXECUTIVE OFFICER OF DENEL SAAB AEROSTRUCTURES (PTY) LTD
DENEL BOARD COMMITTEE MEMBERSHIPS: Former positions include chief executive officer of Denel Aviation, non-executive director of DSA and TMA, and chairman of DPS.
OTHER DIRECTORSHIPS: Former positions include CEO of Wesgro, GM at TISA and Project Manager at Armscor.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic leadership, business management, programme management, and turnaround management.
Appointed as chief executive officer on 1 March 2010.

5. Mr BPE Garcia (49)
MSc (Mech) Eng, MBA
CHIEF EXECUTIVE OFFICER OF 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.

6. Mrs E J Geldenhuys (43)
BCompt, BCompt (Hons), CFA (SA)
GENERAL MANAGER OF DENEL PROPERTIES
DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Chairman of the DLS audit and risk committee and a member of the DLS board.
OTHER DIRECTORSHIPS: Director of Denel Properties and Bonaero Park.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership in financial and business management, financial reporting and discipline, system implementing, and processes changes.

Appointed as general manager on 1 April 2011.

7. Mr ML Kgobe(42)
Masters in Aeronautical Maintenance and Production Management, Executive Leadership Programme, Diploma Pressurised Airframes & Engines, Diploma Mechanical and Electrical Engineering
CHIEF EXECUTIVE OFFICER OF DENEL AVIATION
DENEL BOARD COMMITTEE MEMBERSHIPS: Executive Director of DPS and non-executive director of TMA.
OTHER DIRECTORSHIPS: None.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, engineering and project management.
Appointed as chief executive officer on 1 March 2010.

8. Dr E Khoza (45)
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 OF DENEL TECHNICAL ACADEMY
DENEL BOARD AND BOARD COMMITTEES: Board member of TMA.
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.

9. Mr R Mills (47)
BMil, MBL
CHIEF EXECUTIVE OFFICER OF DENEL INTEGRATED SYSTEM SOLUTIONS
DENEL BOARD COMMITTEE MEMBERSHIPS: None.
OTHER DIRECTORSHIPS: Non-Executive director Denel Aviation.
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.

10. Mr JV Morris (42)
BSc (Hons) (Psychology and Sociology), MSc (Agricultural Economics)
GROUP EXECUTIVE: STRATEGY AND COMMERCIAL
DENEL BOARD COMMITTEE MEMBERSHIPS: Non-executive director of DSA and DPS.
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 Enterprises, as deputy director-general: manufacturing.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategy development and execution, corporate restructuring, mergers and acquisitions, economic policy and public sector knowledge.
Appointed to the group executive committee on 1 November 2008.

11. Ms TP Mushungwa (41)
BAdmin (Hons) in Industrial Psychology, Programme in Business Leadership, MBL (thesis pending)
GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION
DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Non-executive director of RDM, DTA and Denel Properties.
OTHER DIRECTORSHIPS: NOVO Energy (Pty) Ltd.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, human resources and transformation.
Appointed to the group executive committee on 1 June 2007.

12. Mr ZN Ntshepe (54)
Post Graduate Diploma in Management Studies, MBA
GROUP EXECUTIVE: BUSINESS DEVELOPMENT AND CORPORATE AFFAIRS
DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Non-executive director of DISS, DLS, OTR and CZO.
OTHER DIRECTORSHIPS: None.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, negotiation skills, marketing and business development.
Appointed to the group executive committee on 1 September 2003.

13. Mr N Schulze (58)
BCom (Economics)
CHIEF EXECUTIVE OFFICER: RHEINMETALL DENEL MUNITION (PTY) LTD
DENEL BOARD AND BOARD COMMITTEES: None.
OTHER DIRECTORSHIPS: Rheinmetall Laingsdale (Pty) Ltd.
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.

14. Maj Gen (Ret) OA Schür (61)
Senior certificate (BMil), various military training and executive leadership courses, post graduate qualification in aviation safety and accident investigation from USC, 40-year career in the SAAF including advanced combat flying qualifications, squadron command tours, Defence Attaché to Switzerland and appointments as assistant director fighter programmes, director Air Force Acquisition and chief director acquisition in the defence secretariat.
GROUP EXECUTIVE: TECHNICAL
DENEL BOARD COMMITTEE MEMBERSHIPS: Non-executive director of Denel Dynamics, Denel Aviation, and DTA.
OTHER DIRECTORSHIPS: Non-executive Director at AMD and former positions as non-executive director at DLS, OTR and TMA.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: 17 Years of project management experience, technical and systems management, negotiation skills, problem solving, strategic planning and business development.
Appointed to the Denel group executive committee on 1 February 2008.

15. Mr K Viljoen (48)
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 in July 2007.

16. Mr AJ van der Walt (53)
MSc (Computer Science), Executive Leadership Programme
CHIEF EXECUTIVE OFFICER OF DENEL OVERBERG TEST RANGE
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.

17. Mr A Williams (54)
BMil and various related certificates
CHIEF EXECUTIVE OFFICER OF MECHEM (PTY) LTD
DENEL BOARD AND BOARD COMMITTEES: None.
OTHER DIRECTORSHIPS: Foundation for Military Engineering in Southern Africa and Gunners Engineers Memorial (GEM) Village (both NPOs).
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, human resources and engineering experience.
Appointed as chief executive officer on 1 June 2008.

18. Mr JM Wessels (52)
BEng (Hons) Electronics, Advanced Management Diploma
CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS
DENEL BOARD COMMITTEE MEMBERSHIPS: Non-executive director of DISS.
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.

19. Mr CP Wolhuter (60)
BCom Accounting (Hons), CA (SA)
CHIEF EXECUTIVE OFFICER OF PRETORIA METAL PRESSINGS
DENEL BOARD AND BOARD COMMITTEES: None.
OTHER DIRECTORSHIPS: None.
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership, financial management, solid manufacturing and export related knowledge, including experience drawn from performing as financial director in a listed company and prior general manager positions.
Appointed as chief executive officer on 1 April 1996.

Section four
Business entities profiles

Core business entities

Denel Aviation

Denel Aviation delivers complete aviation solutions with global reach to the defence and civilian markets through strategic worldwide partnerships. The entity is the OEM of the Rooivalk combat support helicopter and design authority of the SAAF Oryx medium transport helicopter. It has a primary focus on maintenance, repair, overhaul (MRO), upgrades and systems integration of both fixed and rotary wing aircraft, associated components and ground support and test equipment.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	736	927	(191)
Export turnover	37	17	20
EBIT	(159)	78	(237)
Confirmed order book	2 213	517	1 696
Workforce complement	1 175	1 260	(85)

Note: The financial indicators above represent the business entities' performance, including intergroup activities.

Main activities are the following:

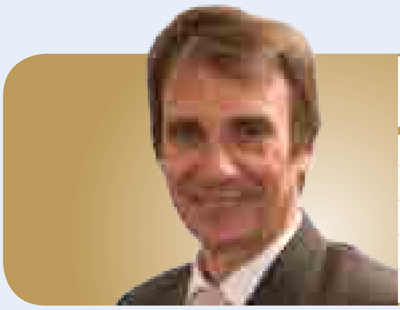
- Rotary wing MRO is a Eurocopter-accredited service centre. It performs maintenance, modifications, upgrades and conversions on military and civilian rotary wing aircraft, specialising in Oryx, Rooivalk, BO105, Puma SA330, Alouette SE3160 and Eurocopter Squirrel AS350.
- Engineering and Flight Test is the Rooivalk OEM, Oryx and Cheetah design authority and further provides MRO engineering support, upgrade solutions and systems integration and design, development, certification and flight testing competence.
- Fixed wing MRO is a Lockheed Martin-accredited Hercules service centre and technical support facility, with a sound, well-positioned infrastructure offering a wide range of MRO services for both transport and tactical aircraft. It specialises in the C130, L100, Cheetah and Mirage platforms.
- Component MRO is an accredited Eurocopter dynamic components repair and overhaul centre offering depot-level maintenance of avionics, electrical, oxygen and hydro-mechanical components. The facility is also accredited to carry out repairs and calibration of ground support and test equipment.
- DPS focuses on sourcing and securing of technical skills for clients in the execution of client business objectives, including labour recruitment, selection, remuneration management, training, administration and interaction with labour unions on behalf of clients. The company also supports aviation-related artisan training initiatives and on-going retention of the certified competencies required for its aviation-related artisan pool.

Key highlights and achievements include the following:

- Completed the retrofit of five Rooivalk aircraft to the certified mark 1F baseline and delivered the aircraft to the SAAF.
- On-going support for the SAAF Oryx fleet, with the highest aircraft availability levels being achieved during the 2010 Soccer World Cup.
- Continued support of the South African Police Service AS350 Squirrel and Bo105 helicopters through a partnership with Eurocopter Southern Africa.
- The Denel Aviation C130 MRO capability integrated at Air Force Base Waterkloof produced the highest level of aircraft availability for the SAAF, enabling effective deployment for joint SANDF operations.
- Successfully concluded an export contract for overhauling and selling Cheetah C and D aircraft, as well as a maintenance contract to a Southern African Development Community (SADC) member.
- A turnaround strategy for the containment of losses and technical risk for the Oryx communications and avionics upgrade programme, has been put in place. The business is forecast to return to profitability during 2011/12 financial year.
- This business entity's CEO received the prestigious Metropolitan Oliver Empowerment Award for Top Black Public Sector Executive in recognition of the significant increase to the level and quality of empowerment at Denel Aviation and the business entity's contribution to growth and sustainability of the South African economy.

Denel Land Systems

DLS designs, develops, integrates, supplies and supports landward based high-mobility, high-firepower product systems, turrets, turret subsystems-integration, rapid-fire small and medium calibre weapons, as well as combat vehicle systems.



Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	554	473	81
Export turnover	73	97	(24)
EBIT	9	9	-
Confirmed order book	680	713	(33)
Workforce complement	391	421	(30)

Note: *The financial indicators above represent the entity's performance, including intergroup activities.*

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 and in-service support.
- Providing product and logistical support, including testing and qualification, maintenance, upgrades and eventual decommissioning, as and whenever required.
- The development and ultimate production of 'Badger' family of new-generation Infantry Combat Vehicles (ICV), under 'Project Hoefyster'. The development of variants continues apace, with a significant milestone of the product baseline for the 'Section Variant' being achieved on 10 September 2010. This simultaneously kick-started a steadfast countdown process towards the much-anticipated production order, with another four variants following closely behind the lead prototype vehicle. Project Hoefyster is utilising DLS's five state-of-the-art modular combat turret variants, armed with the home-grown GI-30 (30mm CamGun) and 60mm breech-loading long-range mortar system. Denel Dynamics' Ingwe anti-tank missile system is integrated into the anti-tank variant of the Patria AMV 8x8 armoured modular vehicle platforms. The aim of project Hoefyster is to replace the SA Army's ageing fleet of Ratel ICVs in a phased approach and whilst also creating 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.

Key highlights and successes include the following:

- Achieved a significant milestone on the product baseline of Hoefyster on 10 September 2010. This milestone is a pre-requisite in activating the production order.
- The operational testing and evaluation of Acrobat was achieved with great success in November 2010.
- Involved in advanced negotiations with a potential customer for an 8X8 Infantry Combat Vehicle programme similar to the local Hoefyster programme, with receipt of a letter of intent.
- Over one million accident-free working hours has been achieved.
- Artillery trials were successfully conducted for a major client.
- DLS received its ISO 14001 certification during the year.
- Successful restructuring to streamline and position for future growth.

Denel Dynamics

Missiles

The Denel Dynamics Missiles business operates in the domain of tactical missiles and precision guided weapons. Dynamics Missiles is a designer, developer, system engineer, manufacturer, supplier and provider of services in all listed aspects of missiles and the national custodian of the related technologies.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	729	656	73
Export turnover	192	204	(12)
EBIT	5	(51)	56
Confirmed order book	715	979	(264)
Workforce complement	718	721	(3)

Note: The financial indicators above represent the entity's performance, including intergroup activities.

Main activities include the following:

- The business entity 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 development institution for young engineers and technicians, developing human capital for both the defence and high-tech manufacturing sectors in South Africa.

The current range of products and systems includes 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.

Key highlights and successes include the following:

- Dynamics Missiles continued the trend of steady financial improvement and reported a moderate profit. This is owing to the combined impact of increased orders from the DoD, first-time on-time deliveries on key contracts and operational as well as efficiency improvements including cost containment. Major export contracts could provide an upside.
- Highly successful qualification of Umkhonto Block II by the Navy of Finland, enabling the start of serial production deliveries.
- Continued sound engineering progress on the A-Darter missile development with Brazil, emphasised by the successful separation firing trials from the SAAF Gripen by the aircraft's OEM and SAAB.
- Successful qualification of the 10km Mokopa missile at the OTR.
- Next-stage development of the ground based launcher for Umkhonto surface to air missile contracted.
- Production order for Ingwe anti-armour and another for Umkhonto Block II surface missiles received from the DoD.
- Technology development contracts in support of next-generation user requirements received from the DoD.
- The engineering bursary programme continues to be a flagship initiative with 54 participating students.

Denel Dynamics

UAVS

The UAVS business entity is a proud innovator of competitive tactical unmanned aerial vehicles and high-speed target systems. This business entity is involved in the design, development and manufacture of world-class unmanned aerial vehicles.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	185	236	(51)
Export turnover	160	229	(69)
EBIT	31	18	13
Confirmed order book	333	280	53
Workforce complement	90	87	3

Note: The financial indicators above represent the business entities' performance, including intergroup activities.

Denel UAVS range of products and systems include:

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

Key highlights and successes include the following:

- Efficient execution and finalisation of a large order for Seeker II aircrafts and payloads which contributed positively to the bottom line.
- Commencement of the development phase of the Seeker 400, with test flights provisionally scheduled for late 2011.
- Undergoing advanced negotiations with several potential clients for the delivery of a Seeker II system capability; an order for Seeker II engines was secured.
- Focusing on securing on-going maintenance and support contracts with our clients.

Denel Integrated Systems Solutions

DISS is the prime contractor for the Ground Based Air Defence System (GBADS) of the SANDF.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	5	55	(50)
Export turnover	-	1	(1)
EBIT	(85)	(13)	(72)
Confirmed order book	70	64	6
Workforce complement	53	54	(1)

Note: The financial indicators above represent the business entities' performance, including intergroup activities.

Designated as single-source supplier of the GBADS capability to the SANDF. Main activities, products and services include the following:

- Design, develop, produce and qualify integrated air defence solutions.
- Extensive modelling and simulation experience in the design of systems.
- Through life-cycle support of air defence systems including the ability to co-ordinate and manage changes to the system baseline.
- Key skills in the design, development and integration of complex systems - in particular in the domain of command and control systems.
- Services orientation to ensure impartiality in the selection of equipment and solutions.

Key highlights and successes include the following:

- Conducted mentorship programme to develop young system engineers, as well as continuing with the process of certifying engineers and programme managers.
- Certification of the company in terms of ISO 9001-2008.
- Achieved a Level 3 B-BBEE rating.

Mechem (Pty) Ltd

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

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	151	165	(14)
Export turnover	149	133	16
EBIT	17	(4)	21
Confirmed order book	131	147	(16)
Workforce complement	65	56	9

Note: The financial indicators above represent the entity's performance, including intergroup activities.

Main range of products, services and activities include the following:

- A range of technologies, services and products in its demining applications. The technologies employed include manual demining and explosive ordnance disposal, vehicle-mounted demining, mechanised demining, landmine surveys, quality assurance and victim assistance.
- MEDDS, a unique remote scent detection capability used to identify mines, explosives, drugs and other contraband, thus significantly improving the success of detecting banned and dangerous substances, while vastly reducing the time required to clear large facilities and vehicle queues.
- Specialist canine services, including 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 is rated as the world standard for such vehicles.
- Operational support of commercial activities such as major events.
- 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.

Key highlights and achievements include the following:

- Completion of various demining projects in Afghanistan, Sudan, DRC, Angola and Mozambique delivering large tracts of land and thousands of kilometres of roads clear of mines and other explosive remnants of war. This supports these countries and their citizens in returning to normality.
- Mechem's trained dogs are used in cargo screening for the detection of narcotics and contraband as required by part 108 of the Prescriptions on Handling Cargo, of the UN-governed International Civil Aviation Authority. This approach is more successful and cost-effective than x-ray machine alternatives.
- An upgraded Casspir, the Mk 4, was developed and launched at the 2010 AAD Exhibition. Whilst maintaining the same features of the proven and trusted Casspir Mk 2, this vehicle is a modernised version using the latest technology.
- The company's skills development expanded internationally and students from Mozambique, Libya and Namibia have been trained in demining and dog handling.
- Mechem records over fifty years of existence and continues its exemplary service delivery tradition. This landmark gives it credibility as a major player in its industry.
- The company was successful in obtaining ISO 9001, ISO 14001 and OSHS 18001 accreditation in November 2010.

Pretoria Metal Pressings

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

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	501	626	(125)
Export turnover	141	268	(127)
EBIT	14	25	(11)
Confirmed order book	361	261	100
Workforce complement*	1 350	1 311	39

Note: The financial indicators above represent the business entities' performance, including intergroup activities.
**including external contract labour*

PMP products are widely used across the spectrum, including within the SANDF, the SAPS and other security agencies, locally and abroad. These include small- and medium-calibre ammunition for soldiers, air defence systems, fighting vehicles, helicopters, fighter aircraft and navy vessels. It also manufactures crew escape systems and power cartridges for local and international clients.

This business entity supplies handgun and rifle ammunition to the commercial sector, with its hunting ammunition being acclaimed by local and international users. It also provides the mining industry with drill bits and the electrical manufacturing sector with brass strip. These are commercial products that are derived from defence technology. Lead styphnate and lead azide are supplied to the chemical industry for the manufacture of detonators for the mining industry. 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 conforms to international military standards.
- Percussion caps of all types, as well as links for various small- and medium-calibre rounds.
- Power cartridges, rocket motors and canopy fragilisation systems for the safe ejection of pilots from aircraft.
- Probit rock drill bits for the mining industry.
- Primary explosives and explosive products for commercial use in the private sector.
- PMP's non-ferrous foundry and rolling plant produces up to 80 tons of brass strip daily. A major portion is used for the manufacture of ammunition by PMP 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, Super and African Elite ranges of hunting ammunition have established a reputation for quality, accuracy and reliability in South Africa, as well as in the European and US markets. The division's apt slogan is 'Masters of the Ammunition Art'.

Key highlights and achievements include the following:

- Although the business environment was tougher due to the world economic climate and the Rand that strengthened against other currencies, PMP did well to maintain reasonable profits and positive cash generation.
- The business entity continued to invest in new-technology manufacturing equipment with a positive effect on manufacturing costs. R12m was spent on additions/replacements, and a significant expense for the enlargement of the primary explosive manufacturing capacities is in progress.
- PMP continues to be a strategic supplier of brass cups to a European company since 2001. Negotiations are in progress for the mass requirement up to 2017. The order placed for 2011 totals R93m.
- Accident-free hours totalled 2 553 069 hours on 13 April 2011. The Lost Time Injury Frequency Rate (LTIFR) is 0,41 which puts PMP amongst the top 5% of 'safe' companies in the world.
- The product development of the PRAC-T and APCI-T 30mm x 173 rounds for Project Hoefyster has been completed, and good progress made on the SAPHEI-T. The product development of the ammunition for the 20mm x 42 NEOPUP weapon has also been completed.
- Although the usage of small- and medium-calibre ammunition by the SANDF is estimated to be more than R200m per year, sales to the SANDF were approximately R95m, emphasising the need for earlier planning of funds by the SANDF.

Overberg Test Range

Previously known as Overberg Toetsbaan, OTR is a versatile missile and aircraft test range that specialises in performance measurement of in-flight systems. It provides support for the qualification of airborne systems, as well as validating the operational effectiveness of military systems. Its primary business goal is to meet the strategic flight test and wider system qualification requirements of South Africa's military-industrial users, as well as foreign defence forces

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	83	87	(4)
Export turnover	35	41	(6)
EBIT	1	5	(4)
Confirmed order book	145	51	94
Workforce complement	163	175	(12)

Note: The financial indicators above represent the entity's performance, including intergroup activities.

The test range provides turnkey flight test, system certification and performance evaluation 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.
- Execution of 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 operating a ground station for the transfer of data to and from satellites.
- Providing flexibility to undertake integrated qualification and system validation for multiple clients simultaneously, with the Test Range proving its ability to manage and execute any combination of air, ground and sea trials independently or simultaneously.

Key highlights and achievements include the following:

- Test campaigns and exercises supported for the domestic market included further advanced tests on the fifth generation A-Darter missile, demonstration firings of the Mokopa missile and support provided for the fourth operational test and evaluation exercise of the DoD's Starstreak Air Defence Weapon System.
- The successful support of a new international client confirmed the Range's suitability and convenience for a wide range of weapon system evaluations. During the campaign, two stand-off missiles were launched from a ship to a prepared target on the test range.
- A long-standing relationship with an international air force saw it return during the year (for the eighth time) for an air defence firing exercise. Another international test campaign supported was for ground-launched missile trials for a European country. Feedback from this divergent client base on the contracted test support and associated domestic arrangements was overwhelmingly positive.
- A new three year contract with the DoD (2011/12 to 2013/14) for rendering flight test services to the SANDF was placed.
- The test range's key role as a strategic flight test facility in South Africa was confirmed during the successful biennial 'Show and Tell' presented to the test range's main clients. This event coincided with the OTR's 25th birthday celebrations.
- The test range maintained its ISO 9001:2008 and ISO 14001:2004 certification which underlines its commitment to quality service delivery within the bounds of prevailing legislation and agreed environmental management principles.

Denel SAAB Aerostructures (Pty) Ltd

DSA designs and produces complex metallic and composite aerostructures for the aerospace industry that are supplied to international aircraft manufacturers, such as Airbus, Boeing, SAAB and AgustaWestland.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	281	430	(149)
Export turnover	254	393	(139)
EBIT	(223)	(283)	60
Confirmed order book	1 278	1 770	(492)
Workforce complement	453	755	(280)

Note: The financial indicators above represent the business entities' performance, including intergroup activities.

Main contracts include:

- The design, qualification, detail manufacture and assembly of the A400M wing-to-fuselage fairing (WFF) and top shells.
- 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.
- Providing engineering support and parts manufacture for the Rooivalk attack helicopter programme.

Key highlights and achievements include the following:

- During 2010/11 DSA received and responded to requests for proposals from amongst others, Honda Jet, Spirit Aerosystems, SAAB, Gulfstream and Embraer.
- The production of the Agusta Westland A109 LUH reached an end with 4 fuselage units still to be delivered. DSA will not consider further orders for fuselages but will instead focus on main rotor blades going forward.
- All the detailed engineering and manufacturing changes required as a result of new load cases were delivered to Airbus ahead of schedule, gaining high praise from the final assembly line in Seville, France and the A400M Head of Programme. Obtained Final Design Acceptance on the A400M WFF (on the first audit) certifying that the product baseline is cleared for production.
- Completed delivery of the 100th rear fuselage for the JAS 39 Gripen fighter aircraft.
- Significant progress in restructuring to reduce costs and improve efficiencies. This included reduction of personnel to align with the business plan, reduction of facility floor-space by 30%, implementation of shared services for human resources and management Information Systems centralised at Denel Aviation from November 2010 onwards, and the outsourcing of non-core activities to convert fixed costs into variable costs.
- Retained composites NADCAP (highest level aerospace accreditation body) accreditation during an audit in February 2011 and additionally received accreditation for heat treatment.
- During the interim AS9100 surveillance audit in November 2010, DSA scored 99% compliance. DSA was audited by European Aviation Safety Agency as an Airbus outsourced partner. The audit was concluded successfully.

Associates

Carl Zeiss Optronics (Pty) Ltd

CZO is a global supplier, involved in the development and production of optronics, optical and precision engineered products for military and security applications.

Key areas	2011 Rm	2010 Rm	Variance Rm
Turnover	393	529	(136)
EBIT	15	75	(60)
Workforce complement	286	294	(8)

The company is active in the development, manufacture and distribution of a wide range of optical and optronic products, sub-systems and systems to a spectrum of domestic and international defence and security clients.

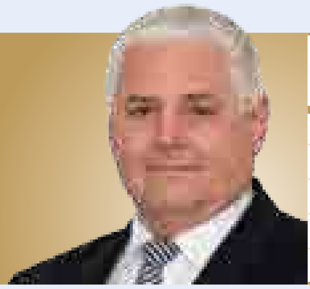
The main product lines are laser rangefinders, handheld observation and targeting systems, stabilized multi-sensor platforms for use in helicopters and drones, and submarine periscopes.

Key highlights and achievements include:

- Finalist: Exporter of the year for the Johannesburg Chamber of Commerce and Industry.
- ISO9001 certification by DQS (German certification body for management systems and quality).
- Major improvements in manufacturing effiencies due to LEAN initiative.
- The business remains profitable dispite global recession and strong Rand (exports 80%).

Rheinmetall Denel Munition (Pty) Ltd

RDM is an integrated producer of energetic materials, ammunition and related products. Its product portfolio includes large calibre ammunition (76mm to 155mm), artillery projectiles, propellants charges and pyrotechnic carriers, mortar bombs, 40mm grenades rocket motors and SADs and various sub-systems.



Key areas	2011 Rm	2010 Rm	Variance Rm
Revenue	1 124	816	308
EBIT	162	49	113
Workforce complement*	1 440	1 686	(246)

**including external contract labour*

Key highlights and achievements include the following:

- The integration of Rheinmetall Waffe Munition GmbH business approach into RDM to achieve a turnaround from an EBIT loss of R117m in 2008 to a sustainable profit of R162m in 2011.
- The implementation of a cost reduction programme that realised a direct saving of R74m during the year. RDM is implementing a further aggressive savings programme to counter strong Rand exchange rate development.
- Securing new orders from international clients has resulted in strong increase of the order backlog, with further growth in sales anticipated in the future.
- A headcount reduction of 246 was a direct result of the 189A restructuring process.
- The three-year investment project of R294m to upgrade and modernise all of RDM's facilities is well on track with positive results for safety, environment and productivity.

Turbomeca Africa (Pty) Ltd

TMA is the world leader in design, manufacturing and sale of gas turbines for small and medium power helicopters.

Key areas	2011 Rm	2010 Rm	Variance Rm
Revenue	303	386	(83)
EBIT	73	61	12
Workforce complement	233	224	(9)

Main activities include being the centre of excellence for the following:

- Gears and shafts, either spur helical or spiral-bevel.
- 5-axis high speed machining for gearbox casings, either magnesium or aluminium.
- Maintenance, repair and overhaul of Makila, Turmo and Arrius engines.
- Parts repair for Makila, Turmo and Arrius.
- Repair and overhaul for Makila and Turmo Accessories as well as Arrius HMU.
- Sole engineering centre of excellence for Artouste and Turmo engines.
- Engine test facilities for Turmo, Makila, Arrius and Adour.

In South Africa, Turbomeca engines are mainly in use on the SAAF Oryx, Rooivalk and Agusta A109. TMA's business also includes the Turbo Support Centre for first- and second-line maintenance on-site or in the field.

Key highlights and achievements include the following:

- Major efficiency improvements in maintenance and repair activities of engines and accessories, resulting in a minimum turnaround time for customers.
- Continued delivery of Rolls-Royce gearboxes as single-source supplier.
- Improvements in internal efficiencies, ensuring continued profitability despite the impact of the global recession.

This business entity has had a successful turnaround and continued to post impressive financial results as a result of good order cover and world-class industrial systems and processes.

Section five
Sustainability Report

Sustainability vision, strategy and commitments

Denel recognises the impact of its activities on people and the environment. Denel is particularly conscious of the potential impact of its activities on future generations and strives to conduct business in a responsible manner making choices about what to develop, what to sustain, how to manufacture it and for how long. Denel is convinced that long-term sustainability is integrally linked to our caring for community, employees and the environment. This conviction is reflected in every financial and economic decision that is made by the group. Denel aims to conduct its business in a sustainable manner by making positive contributions to its economic, social and natural environments, and ensuring the responsible use of scarce natural resources. Denel strives to operate as a responsible manufacturer 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. Denel's values and ethics policy influences and guides its business practices and behaviours in respect of sustainability objectives and performance.

The group has adopted the latest King Report (King III) on good corporate governance which incorporates sustainability development. Denel understands and believes that companies that are at the forefront of monitoring and managing related risks and reporting their sustainability impacts, perform better than non-complying entities. Through monitoring and reporting, companies are able to enhance their positive impacts, eradicate the negative, and realise benefits which impact the bottom line, thus achieving the following:

- Identify impacts of activities on the environment, enhance the positive and address the negative.
- Improve risk and opportunity management.
- Increase operational efficiency.
- Brand and reputation enhancement.
- Stimulation of innovation and new opportunities.
- Prioritisation of actions.
- Positive effects on employee recruitment and retention.
- Source of competitive advantage.
- Reduce regulatory oversight/non-compliance.
- General management improvement.
- Increase customer interaction and market share.

The monitoring and reporting of sustainability demonstrates a serious commitment to sustainable development, whilst maintaining and strengthening trust with internal and external stakeholders. Complying with sustainability development requirements including reporting is 'the right thing to do' and is in line with Denel's values.

Individual businesses are required to understand their sustainability issues, define what sustainability means and develop appropriate visions and implement strategies as identified. King III requires that the disclosure of sustainability issues be reviewed, considered and evaluated. The board of directors, through its audit and risk committee, understands the key strategies, risks and the sustainability issues of the group. The board and audit and risk committee oversees the evaluation and reporting of sustainability issues. The business entity board, through its audit and risk committee, is responsible for overseeing the implementation of sustainability strategies, practices and reporting. The overall responsibility for implementation rests with business entity executive management.

About this report

This sustainability report is aimed at providing a balanced, transparent and understandable view of Denel's sustainability activities. It includes the company's impacts and contributions to the economic, social and natural environment in which it conducts its business. This report demonstrates and communicates the group's commitment to sustainable development 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 business entities. It also provides information on its associates 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. The *GRI content index* is provided on pages 114 to 119, and indicates reporting against Denel's core indicators. This report 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 our sustainability activities. In such instances, descriptions of the activities taking place at the relevant core business entities are provided. Denel aims to address and resolve this situation as it executes 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

Although the defence-related section of the business has turned around and now generates positive returns, significant challenges to Denel still remain. These include the ongoing losses at DSA, the weak statement of financial position of the group and the competitiveness of the international market resulting in reduced revenue. These challenges were the group's most significant issues and are discussed in the *directors' report*, the *strategic overview* section of the *sustainability report* and throughout this annual report. Denel is, however, cognisant of the fact that its long-term sustainability not only depends on successful resolution of these issues, but is also limited to and dependent on social and environmental sustainability. The main elements of, and reasons for, the financial stability and going concern challenges are discussed in the *directors'* report, and throughout this annual report.

To address these significant issues and ensure a sustainable future, Denel's strategy is focused on customers, efficiency and growth. The group's key sustainability focus areas for the year are articulated in the refined strategic drivers on page 97. 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. Comprehensive details, as well as the group's performance in these areas, are provided throughout the *sustainability report*.

KPIs are used throughout 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 KPIs is provided in the *shareholders compact* report on page 93. The groups executives are assigned responsibility to implement the KPAs and drive performance, as well as to ensure that processes for sustainable improvements are embedded within the key focus areas.

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* on pages 56 to 119.

Identified material issues are also managed and addressed as part of the group's risk management programme. The details are disclosed in the *risk governance* report on page 81. 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.

Economic impacts

Overview

As a global trading company with nine business entities and three associated companies, Denel plays a major role in contributing to the South African manufacturing and associated technology base, with revenue of R 3 252m (2010: R 3 610m), representing the local market, 68% (2010: 61%) and export markets, 32% (2010: 39%) (excluding Associates).

The group maintained a global economic footprint through its exports, which contributed to a third of Denel's revenue. As a technology incubator for the DoD, and by investing in new product development, Denel remains at the forefront of advanced manufacturing, process optimisation and human capital development. Denel is also expanding the RSA technology base in association with the DST and the wider local defence sector. In addition to this, our partnerships with associate companies enabled additional investment in new technologies and plant and materials. Through the application of our technology base, Denel was able to participate in the commercial sector with demining and contraband control, unmanned aerial vehicles, commercial explosives and drill bits for our mining sector, brass and copper strips, amongst other products.

The group continues to impact the country's economic, social, human capital development and natural environment. However, Denel is dependent on significant borrowed capital to support its going concern status, requiring recapitalisation to enable the company to become self-sustainable in future. Refer to the *directors' report* on pages 125 to 135, for more information in this regard. Details of the challenges experienced are provided in the *material issues* section of the *sustainability report* on page 58, as well as in the *outlook* section on page 23 of this annual report.

Contributing to the defence industry

Denel's existence ensures an appropriate level of strategic military independence for the country as it is a preferred supplier of defence equipment and solutions for the SANDF. The group supplies a variety of artillery, munitions, missiles, aircraft sub-assembly manufacturing, aircraft maintenance, unmanned aerial vehicles and optical payloads that are all based on high-end technology. The group's products and solutions are designed and developed by highly skilled engineers, scientists and artisans to meet the unique end-user requirements of the SANDF and our valued export customers, also providing full life cycle support solutions that result in reduced cost of ownership and significant foreign exchange savings.

Denel, together with its strategic alliances and partnerships, is contributing to creating a safer environment with products that have been tailor-made for Africa, the UN, other international agencies, governments and commercial customers globally with in regulated international protocols. It is also actively supporting the SANDF in peacekeeping missions in Africa, as political stability and safety are determinants for economic development.

Industrial development

The group provides turnkey solutions of defence equipment to its military as well as growing commercial client base, enabling Denel to continue to offer meaningful employment, generate tax revenues and contribute to economic and social development. After concluding contracts, Denel assumes responsibility to structure, plan and execute these projects for full life cycle support.

Research, design, development, integration, qualification, certification and industrialisation are primarily conducted in-house, with selected specialised items outsourced to strategic local and selected international suppliers. With sustainability in mind, Denel self-funded R&D of 4% of turnover in 2010/11, with our collective R&D exceeding R1.1bn, inclusive of our associate companies. Significant production is also outsourced to the general local manufacturing sector, thus impacting directly on the wider industrial base of the RSA. The business entity PMP, was vertically integrated for the full production cycle.-

Leveraging on the defence technology base, innovative applications have been found in increasing rail safety, crime prevention, surveillance, protection of assets, mine safety management, extended life mining drill bits, commercial brass and copper strips, amongst others. The global economic

slowdown and continuous shrinking of international defence budgets has resulted in a reduced order book. This has been mitigated through the contributions of strategic alliances and partnerships, client investments in product development and significant improvements in internal processes.

Direct economic impact

Denel's economic footprint reaches beyond the financial performance reflected in the group's financial statements. Further impacts include its contribution to employment, to direct and indirect taxes and the purchasing from local suppliers and sub-contractors. With a workforce of 4 716 employees (2010: 5 090), excluding associated companies, the group strives to meet the diverse needs of its stakeholders by promoting its products to increasing commercial and industrial clients to augment our defence sales, with an emphasis on growing our contribution to high-end technology and advanced manufacturing. Denel also continues to contribute to the strengthening of the South African economy by exploring new markets, with the aim of generating additional revenues from new local and foreign customers, while creating and distributing wealth to the value of R1.8bn (2010: R1.6bn) through various initiatives by increasing its global footprint and engagement with targeted strategic partners.

Emphasis has been placed on business development initiatives and ensuring an increase in the conversion of opportunities into orders. As a consequence, an opportunity pipeline in excess of R40bn (2010: R25bn) has been developed, with future order cover increasing to 66% (2010: 52%). The group has achieved revenue of over R4bn and a net profit of R111m (2010: R246m loss).

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 126.

	2011 [1] Rm	2010 [1] Rm	2009 [1] Rm	2008 [1] Rm	2007 [1] Rm	2006 [1] Rm	2005 [1] Rm	2004 Rm	2003 Rm	2002 Rm
INCOME STATEMENT										
Revenue	3 252	3 610	3 924	3 818	3 268	2 773	3 572	4 442	4 372	3 904
(Loss)/profit before net finance cost and income from associated companies	(314)	(162)	(463)	(233)	(387)	(1 076)	(1 315)	62	203	(286)
Net finance cost (before capitalised interest)	120	139	73	61	143	188	104	120	109	55
Depreciation	93	92	112	108	132	150	157	121	107	96
Profit/(loss) before taxation	144	(222)	(504)	(316)	(501)	(1 291)	(1 403)	(358)	(44)	(348)
Profit/(loss) after taxation from continuing operations	111	(246)	(533)	(321)	(507)	(1 311)	(1 416)	(384)	(72)	(359)
Taxation expense	(33)	(24)	(29)	(5)	(6)	(19)	(13)	27	29	11
Non-controlling interest in (loss)/profit	(47)	(65)	(91)	(13)	(1)	-	5	(7)	-	4
(Loss)/profit for the year	111	(246)	(533)	(347)	(549)	(1 363)	(1 561)	(378)	(73)	(363)
Cash outflow before financing activities	(23)	(416)	(1 163)	222	(946)	(1 061)	(422)	(201)	(229)	(291)
STATEMENT OF FINANCIAL POSITION										
Non-current assets	2 110	1 677	1 623	1 476	1 348	1 601	2 173	1 350	1 415	1 244
Current assets	2 921	3 343	3 107	3 607	2 616	2 724	2 410	2 742	2 839	2 757
Assets held for sale	7	-	9	58	540	352	68	-	-	-
Total assets	5 038	5 020	4 739	5 140	4 504	4 677	4 651	4 092	4 254	4 001
Current liabilities	3 909	3 954	3 446	3 081	3 000	1 938	2 888	2 347	1 960	2 543
Total equity	654	609	849	1 328	633	615	(16)	844	1 388	1 416
Non-controlling interest	-	(34)	31	102	6	7	7	9	20	18
Non-current interest bearing borrowings	101	101	53	1	2	832	848	832	841	27
Current interest bearing borrowings	1 845	1 943	1 074	234	833	14	520	76	9	352
STATISTICS										
Total number of shares in issue (million)										
Class A ordinary shares	1 000	1 000	1 000	1 000	976	849	402	402	402	402
Class B ordinary shares	225	225	225	225	40	40	40	40	40	40
Total shares	1 225	1 225	1 225	1 225	1 016	890	442	442	442	442
RETURNS (%)										
Operating (loss)/profit to turnover	(9.7)	(4.5)	(11.8)	(6.1)	(11.8)	(38.8)	(36.8)	1.4	4.6	(7.2)
Operating (loss)/profit to average total assets	(6.2)	(3.4)	(9.9)	(4.8)	(8.4)	(23.1)	(30.1)	1.5	4.8	(7.3)
Operating (loss)/profit to ordinary shareholders' interest [2]	(48.0)	(26.6)	(54.5)	(17.5)	(61.1)	(175.1)	-	7.5	14.9	(20.4)
RATIOS										
Debt/ equity ratio [2]	3.0	3.4	1.3	0.2	1.3	1.4	-	1.1	0.6	0.3
Current asset ratio	0.7	0.8	0.9	1.2	0.9	1.4	0.8	1.2	1.4	1.1
Net finance cost cover	1.2	(1.6)	(6.9)	(5.2)	(3.5)	(6.9)	(13.5)	(3.0)	(0.4)	(6.3)
Revenue per employee (Rm)	0.7	0.7	0.8	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Number of employees	4 716	5 090	5 067	7 276	7 634	8 850	9 942	10 925	10 878	10 768

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

Value added statement

For the year ended 31 March 2011

Value added is a measure of the wealth that the group has created in its operations by adding value to the cost of materials and services purchased.

The statement shows how wealth was created and how it was shared amongst employees, the providers of funds and the capital re-invested in the group for continuation and expansion of operations.

	2011		2010	
	Rm	%	Rm	%
Revenue	3 252		3 610	
Less: Cost of materials and services purchased	(2 016)		(2 136)	
Value added	1 236		1 474	
Add:				
Finance income	37		46	
Other income	543		106	
Wealth created	1 816		1 626	
Distributed as follows:				
Employees: Salaries and relevant costs	1 467	80.8	1 614	99.4
Providers of capital	110	6.1	120	7.4
Interest on borrowings	157	8.6	185	11.4
Non-controling interests	(47)	(2.5)	(65)	(4.0)
Government				
Tax (refer note A)	35	1.9	46	2.8
Re-invested in the group for continuation and expansion	204	11.2	(154)	(9.5)
Depreciation (refer note 3)	93	5.1	92	5.7
Accumulated profit/(loss)	111	6.1	(246)	(15.1)
Wealth distributed	1 816	100	1 626	100

Note A

Tax

	2011 Rm	2010 Rm
Tax paid and provided for:	35	46
Current tax	23	40
Total tax	33	24
Deferred tax	(10)	16
Rates and taxes paid to local authorities	12	6
	35	46

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

	2011 Rm	2010 Rm
Net VAT	7	17
Charged on sales	334	270
Levied on purchases	(327)	(253)
Employees' taxation	282	201
UIF contributions	8	8
	297	226

Supplier management

Overview

Denel views its supplier base as pivotal in ensuring quality service and products to its customer. Denel is committed to the support and development of local suppliers, with a specific focus on B-BBEE and SMME companies. This is supported by Denel's focus on core competencies of design, development, qualification, manufacturing and system integration, which involves the local manufacturing sector. Thus growing the pool of local suppliers, which include a spectrum of developing SMME and B-BBEE companies. This ensures that Denel contributes to the development of local industries.

Denel is committed to enhancing preferential procurement and supplier development practices with specific emphasis on exempt micro enterprises (EMEs) and B-BBEE suppliers in establishing longer-term business partnerships in the defence industry. Further details regarding the transformation programme and preferential procurement are provided on page 71.

Supply chain was identified as a contributor to operational efficiency. Denel has embarked on a process to optimise supply chain management. The primary objectives of supply chain improvements are to reduce investment in inventory and work in process. In order to achieve these objectives and realise savings, processes and procedures have been extensively reviewed. For short-term gains, attention has been given to interventions to optimise supply contracts for general commodities and services. Training of supply chain functionaries was undertaken to improve competencies.

Significant progress was made during the year and further improvements are envisaged for 2011/12. The success of these initiatives will be influenced by the following:

- Financial restrictions impacting on the development and accreditation of more local suppliers.
- High technical requirements and tight timescales often limits opportunities to draw in new suppliers within mostly fixed-cost contractual ceilings.
- High cost of entry into the defence manufacturing sector and a need for certification of processes.
- The low multi-year order book and delayed in-year contracting precludes transfer of manufacturing capabilities to new suppliers.
- Supply chain management as an end-to end business process has yet to be implemented fully to realise the strategic benefits to be gained from optimised supply chain processes. These include strategic resource planning, optimised procurement cycles, JIT delivery, minimising inventory-on-hand, etc.

In response to the challenges outlined above an overarching supply chain initiative was implemented, with a focus on supplier development, inventory optimisation, inter-group strategic sourcing and services that would make an immediate impact on the cost of sales.

Managing suppliers

• Policies and procedures

The Denel group procurement framework forms the basis for the business entity supply chain policy development and implementation. Denel has completed external audit reviews on supply chain optimisation which have guided the improvements of business entity procurement. A self-assessment tool was also developed to allow internal evaluation of supply chain efficiency and effectiveness, with supply chain managers empowered to implement immediate remedial action. These interventions are strengthened by delegations of authority and performance-based contracting of supply chain officials. This has resulted in the refinement of business entity procedures to ensure optimised engagement of emerging enterprises.

• Management structures, roles and responsibilities

Supply chain as a value-adding service has been integrated across all facets of business, with appropriate involvement of executive management. Sound systems of governance and accountability have been implemented to appropriate levels of management with formal delegation and multi-disciplinary supply chain committees. Supply chain officials are contracted for strategic planning and efficient execution of procurement and sourcing. Supply chain managers have been tasked with administration of the compliance requirements associated with Defence Materiel on behalf of Denel. Integrated supply chain forums are held at regular intervals to co-ordinate group-wide initiatives, report on targeted initiatives.

- ***Goals, objectives and targets***

Denel business entities have embarked upon a concerted effort to harness the support of its supplier base, through constructive engagement, to secure optimised lead times, develop outsourced competence and ensure the optimal value-proposition for required commodities, services and manufacturing capabilities. Denel aims to maximise its contracting with B-BBEE/SMME service providers and ensure new entrants to this sector. Denel is committed to optimising its participation in and contribution to the revised DTI industrial programme of action as promulgated under the IPAP2 and the NGP initiatives. Denel is an active member of the SOE Procurement Forum to ensure alignment with wider government initiatives.

To ensure continued improved performance as a proudly South African company, the group has set specific targets to accelerate its performance as a certified B-BBEE contributor and to show meaningful progress on its transformation programme. Denel is a level 3 contributor. Further details are provided in the *transformation section* on page 72.

The following goals were pursued during the year:

- Embed an overarching supply chain governance framework to optimise the group's total cost of ownership, improve performance, customer satisfaction and ensure compliance with relevant legislation.
- Enhance business entity level supply chain policies and procedures, with implementation of multi-disciplinary procurement forums.
- Improve performance contracting with clear performance metrics and relevant KPIs to enhance supply chain performance.

Human resources and transformation

Overview

Denel has developed human resources (HR) strategies intended to ensure that the company's business objectives and plans are achieved. A values model provides a guideline for employees to act in a manner that enhances the performance of group and business entity objectives. The performance management system is instrumental in ensuring that each employee understands the company's objectives and that accountability is clear.

Denel recognises that strong leadership is imperative for organisational success. To this end, Denel has developed a model aimed at fostering behaviours and competencies that lead to superior performance. This is the leadership and management competency model which is the driving force of the company's leadership and management development programme.

Denel is committed to people development and has put in place programmes to ensure that employees realise their full potential, they achieve job satisfaction and maximise their contribution to the company. Notwithstanding the fact that the company has experienced retrenchments in the past year, Denel has continued to identify, recruit, develop, and to a satisfactory extent, retain the critical and core skilled employees. Retrenchments of the past year have taken place predominantly in the Aviation and DSA business entities, mainly due to adverse business conditions.

Denel has developed and is implementing skills attraction, development and retention strategies including strategies aimed at improving the image of the group, reviewing the employee value proposition and implementation of mentorship and other relevant programmes.

Denel is committed to an open, honest and productive relationship with the Shareholder, employees, labour unions and other stakeholders.

Priority areas for the year were:

- Maintain a group B-BBEE score of level 4.
- Improvement in the organisational climate from the previous financial year.
- Ensuring a high performance culture.
- Skills development and talent management.
- Embedding succession planning and management.

Denel has assured the Shareholder that the group will play a greater role in skills development more than job creation due to Denel's current financial position.

Employee performance

Workplace profile

As of March 2011, Denel had a total workforce of 4 716 employed at the various business entities (excluding those employed by associate companies) of which 3 597 are employed on a permanent basis and 1 119 on fixed term contract.

The table below illustrates the employee profile per job categories:

	2011		2010	
JOB CATEGORIES	Black*	White	Black*	White
Exec Management	27	46	29	48
Management	68	255	66	273
Engineers	64	301	56	309
Scientists	3	22	4	21
Technicians	158	526	159	598
Artisans	1 068	965	1 265	1 070
Configuration	5	36	5	38
IT Personnel	24	27	25	32
Financial	26	49	27	50
Marketing	5	11	5	10
HR	6	8	11	11
Trainers	5	21	10	31
Security	54	21	56	21
Administrative	179	293	207	324
Secretary	22	52	17	58
Trainees	144	23	176	33
General Workers	139	7	14	6
Other	43	13	17	8
Total	2 040	2 676	2 149	2 941
TOTAL WORKFORCE STRENGTH	4 716**		5 090	

** Black refers to African, Coloured and Indian*
*** This decrease results from the retrenchments that took place at Denel Aviation, DSA and DLS*

The table below illustrates appointments by race and gender:

	2011		2010	
	Number	%	Number	%
Black Male*	37	37.8	185	52.0
Black Female*	23	23.5	96	27.0
White Male	26	26.5	56	15.7
White Female	12	12.2	19	5.3
Total	**98**	**100.0**	**356**	**100.0**

The table below illustrates terminations by race and gender:

	2011		2010	
	Number	%	Number	%
Black Male*	143	34.1	54	31.8
Black Female*	58	13.8	19	11.2
White Male	181	43.2	76	44.7
White Female	37	8.8	21	12.4
Total	419	100.0	170	100.0

**　Black refers to African, Coloured and Indian*

Remuneration, reward and recognition

Denel has a group-wide performance management and reward system. This system incorporates a variable pay portion that is payable on achievement of performance targets. The employee's total remuneration includes a variable portion that is payable on the business entity and individual employee achieving or exceeding the contracted targets. One of the objectives of the variable pay system is to encourage business entities to become profitable and achieve sustainability. Since the introduction of this system, most business entities have become profitable. The other objective was to reduce the high employee turnover due to the lower-than-market salaries. Overall employee turnover has come down from 13% in 2007 to 6.4% currently. The company's target attrition rate ranges from 4% - 7% per year.

The Denel board considers the latest economic developments, latest salary increases and performance of the group and approves an annual salary increase mandate. Wage negotiations take place at a decentralised level and are based on the mandate given to management by the board. The salary increase average for the year was 4.8%.

Employee Benefits

- ### Medical aid

The terms of service require employees to be a member of medical aid. The necessary deductions from employees' salaries are made and paid over to the medical scheme. Umed, a closed medical scheme was experiencing financial losses due to high claim patterns as a result of an ageing member profile. This situation negatively and substantially affected the scheme's reserves and a decision was taken to find an amalgamation partner to ensure viability. Umed was, as a result, amalgamated with Discovery Health Medical Scheme with effect from 1 August 2010. This amalgamation was approved by both the Council of Medical Schemes and the Competition Commission.

- ### Denel retirement fund

There is a retirement fund for all employees. The fund is based on a defined contribution model where employees are not guaranteed a specific amount at the time of retirement as this is dependent on the performance of investment mechanisms chosen by the members.

Positive employee relations

Denel's relationship with labour unions is positive notwithstanding the negative mood caused by the retrenchments which took place during the year. Wage negotiations are completed in a timely fashion. All business entities signed recognition agreements with three labour unions which lead to faster issue resolution as they are dealt with at business entity level. The three unions recognised by Denel are Solidarity, NUMSA and UASA.

Profile of Unions represented in Denel:

	2011		2010	
	Number	%	Number	%
Solidarity	785	16.6	973	19.1
NUMSA	832	17.6	845	16.6
SAEWA	32	0.7	34	0.7
UASA	1 143	24.2	1 345	26.4
Total	2 792	59.2	3 197	62.8
TOTAL WORKFORCE STRENGTH	4 716		5 090	

Living Denel's values

Denel has a set of values in place and over a period of time positive behaviours are starting to realise. The group's performance management system also supports values such as accountability, innovation and performance. All employees are encouraged to act in accordance with these values through different mechanisms, such as employee values card that is given to employees to keep with them at all times, as well as GCEO Values Awards.

Employee wellbeing

- ### Wellness Days

Denel participates in the Cancer and Shavathon days in support of people living with cancer. Road shows and interactive workshops are held dealing with personal finance management as part of the wellness drive. Wellness days are held and employees have the opportunity to check their blood pressure, cholesterol, sugar diabetes, etc.

There is an executive wellness programme and its intention is to ensure that all executives go through extensive tests and the aggregated results are shared with the company as part of risk management.

- ### Programmes in support of HIV/AIDS Awareness

HIV/AIDS awareness sessions are held at least one week per year. Posters and banners are displayed during the national HIV/AIDS awareness week and condoms are made available in the ablution facilities. Denel, from time-to-time, invites industrial theatre artists to present shows that raise awareness of HIV/AIDS. These shows were well received by employees.

Developing skills

- ### Employee skills development initiatives

Denel understands the intrinsic link between skills development and long term business sustainability. This industry requires, to a large extent, unique technical skills that are largely not available in the market. Denel has developed a comprehensive skills attraction, development and retention strategy to support the growth strategy of the group. The challenge remains that of implementing such strategies whilst the group continues to post losses.

Denel's objective is to develop every employee to their full potential and to encourage all employees to take learning and development, as a personal responsibility. In this way, Denel will positively impact on the development of skills for the country and contribute to the uplifting of the underprivileged. Denel spent R35m (2010: R35m) on employee skills development and learning programmes for the current financial year.

- ### Leadership and management development programme

Denel has a leadership and management development programme, founded on specific behavioural and functional competencies developed to fit the group's needs. To date, all 88 executives of the various business entities have gone through intensive psychometric assessments and have received individual reports, which outlined gap analysis and mechanisms. Team and personal mastery workshops were held throughout 2010. The Unisa SBL, Denel leadership and management development programmes was recently launched, as another method of closing the identified leadership gaps. These programmes are designed to cover the junior, senior and executive management levels in the organisation. Other development mechanisms currently being used is executive coaching. Denel believes strongly that an ideal leader requires training and development at different stages of one's career.

- ### Engineering academy of learning

Denel runs an Engineering Academy as a means of ensuring that newly qualified engineers are afforded an opportunity to be mentored in a co-ordinated manner. There are currently 15 junior engineers registered in this programme. Denel participants are funded by Denel and the relevant SETA. This programme is registered with ECSA for accreditation.

- ### Succession planning

Denel has a succession planning and management framework in place. The framework ensures the creation of a pool of candidates for leadership roles in the organisation. The framework is also aligned to the transformation programme of the group. Identified potential successors are put through the same developmental programme as that of executives of the business entities.

- ***Employee study assistance***

Denel continues to grant study loans and bursaries to employees who wish to further their studies in fields related to their careers and which complement their jobs'. This ensures that employees are continually improving their skills and staying abreast of the latest technologies and developments related to their fields. Bursaries are in addition to the various courses that have been identified as part of their personal development plans (PDPs) and job-required training.

Youth development programmes

To address the challenge of skills shortages, Denel has focussed its social investment resources and efforts to the development of mathematics and science. These youth development programmes are rooted firmly on working with learners to either encourage them to take mathematics and science at high school, or to provide those who have already matriculated with funds to study engineering and science. In addition, Denel has become involved in the upgrading of mathematics and science teaching to improve the standard of teaching at previously disadvantaged schools. Engineers employed at various Denel business entities are involved in student tutoring on Saturdays without an expectation of a reward.

- ***Artisan training***

Denel's flagship programme is its artisan training academy, within DTA, which is based in Kempton Park. DTA enrols learners for different aviation and general apprenticeships. The academy impacts positively on the South African economy by providing highly sought-after artisans to the industry. The DTA enrols approximately 300 apprentices per annum, but with additional funding, could enrol a greater number. Training is offered for the following:

- Aircraft related disciplines of avionician, electrician, radiotrician, instrument mechanic, structural worker, mechanic.
- Electrician, fitter and turner, machine tool millwright, tool and jig maker, turner and machinist and welding.

In addition, the DTA offers SACAA-certified courses and several other advanced courses. The DTA can be contacted at www.deneltraining.com

- ***Denel Youth Foundation Training Programme***

The Denel Youth Foundation Training Programme (DYFTP) was started in 1994 by Denel Dynamics. The objective of this programme was and still is for Denel to be pro-active in responding to the challenge of lack of skills supply especially in engineering, science and the technical fields. In addition, Denel had made a commitment that its social investment spend will prioritise and concentrate on the development of mathematics, science and technical skills especially for those learners who are from previously disadvantaged backgrounds. In keeping with this objective, learners are sourced from all nine provinces and are provided with accommodation, tuition and a stipend for a year. Most of the learners start the programme with marks as low as 20% and achieve distinctions at the end of the programme, proving that their failure was not as a result of lack of ability but rather as a result of the circumstances in which the learners found themselves. The programme enrols about 50 learners per year.

Denel is considering phasing out the DYFTP and introducing N-courses (i.e. N1, N2 and N3 courses). This is because N-courses would complement the artisan development programme presently run by DTA.

- ***PMP training centre***

There is also a plant-based training centre at PMP to the west of Pretoria. Courses are accredited with MERSETA for apprentices to complete artisanship within 3 years. There were 15 apprentices in training at financial year-end, and various other TETA, SASSETA and ABET training courses were undertaken during the year. In total 913 participants attended various training initiatives during the year.

- ***Schools outreach programme***

Denel is involved in other youth development programmes such as the schools outreach programme, where learners from grade 10 to 12 are offered tuition, in some cases by Denel engineers on weekends. The programme is currently running in the Gauteng and the North-West Provinces with a view that, should additional funding be secured, other provinces would be included. This programme is currently fully funded by Denel at a cost of R 1.2m per year. It supported 80 learners during the year.

- ***Learnerships***

Denel currently has registered two learners in its TOPP Programme. The TOPP programme is a South African Institute of Chartered Accountants (SAICA) learnership registered with the FASSET SETA. Both registered learners are scheduled to complete their training during the second quarter of 2011.

Learning more about our industry

Denel is involved in a number of programmes that seek to attract and encourage potential learners to take studies that are related to its business. These programmes target students from various tertiary institutions.

- ***Bursaries***

Denel's bursary programme is a primary tool for bringing young cadets into the group to counter the ageing workforce profile. Each year, about 30 new bursars are welcomed into the programme and are individually mentored and supported. Over and above the bursary, Denel provides bursars with vacation work and mentors that assist them with projects whilst they study. To date, over 90% of the bursars that complete their university studies have been employed in the group. This success rate is attributable to Denel's hands-on approach that ensures that bursars are fully supported so that they successfully obtain their qualifications and join the group thereafter. Denel currently has 55 bursars based at various universities across the country that are studying engineering and another 14 are pursuing other qualifications.

- ***Women in Engineering***

Denel has joined forces with the SA Women in Engineering. This programme is spearheaded by a group of young female engineers who have a passion of encouraging female learners to enter the field of engineering, science and technology. Denel funds this programme along with other organisations that are also plagued by skills shortages.

- ***Collaboration with tertiary institutions***

Denel was, in 2008, ranked 38th out of 60 employers in the Magnet Survey. The survey gauges the attractiveness of employers to university students as the best companies to work for. Initiatives have been developed which include visits to universities to improve Denel's ranking. Denel now participates in the Engineering Career Fair at the University of Pretoria, Sci-Bono and Aviation week and intends to expand to others.

Through the Armscor Ledger Fund Programme, Denel has built a close relationship with various engineering faculties at universities for technology programmes. Denel sponsors postgraduate studies through this fund. Often, recipients of this funding have opportunities to present their academic papers overseas.

Denel also continuously collaborates with engineering faculties at various tertiary institutions to increase the number of student engineers, so as to increase the general pool of engineering skills in the country.

Transformation

Overview

Denel has embedded a transformation programme and a framework that guides its implementation. Each year, CEOs and general managers of the business entities are contracted, as part of their performance contracts, on key human resources and transformation goals and priorities. Broadly, these cover the seven elements of B-BBEE and climate improvement objectives. The framework includes a monitoring and evaluation tool that ensures that progress is effectively monitored and measured. Elements for climate improvement include the following:

- Leadership: measures the degree to which a business entity's leadership is developed to deliver exceptional performance in relation to their key deliverables as well as employee relations.
- Managing diversity: measures the extent to which management ensures diversity of culture, race and gender including people with disabilities, is addressed.
- Performance management: measures the extent to which the PMS is implemented in a fair and consistent manner.
- Information and participation: measures the extent and effectiveness of staff participation, establishment, maintenance and effective utilisation of participatory structures, e.g. Transformation Committees, workplace forums, departmental meetings, etc.
- Employee satisfaction: measures the degree of satisfaction displayed by employees relative to their perceived and genuine grievances.

Monitoring of transformation performance

Denel believes in genuine social transformation that is sustainable and adds value to employees, the group and the country.

- Transformation committees, chaired by the business entity CEO/general manager, are in place and meet at least quarterly. The role of the committees is to discuss plans, targets and strategies. These committees are made up of union representatives, entity transformation champions, HR practitioners and nominated employees to represent non-unionised employees. This format of managing transformation ensures involvement by all stakeholders and also that consultation takes place.
- HR and transformation, as a key performance area, weighs 20% of the total CEO's/general manager's contract. Achievement of all contracted deliverables leads to qualification for the variable pay and impacts on the annual salary adjustment. Non-performance is handled in line with the company's performance management system and relevant legislation governing such matters.

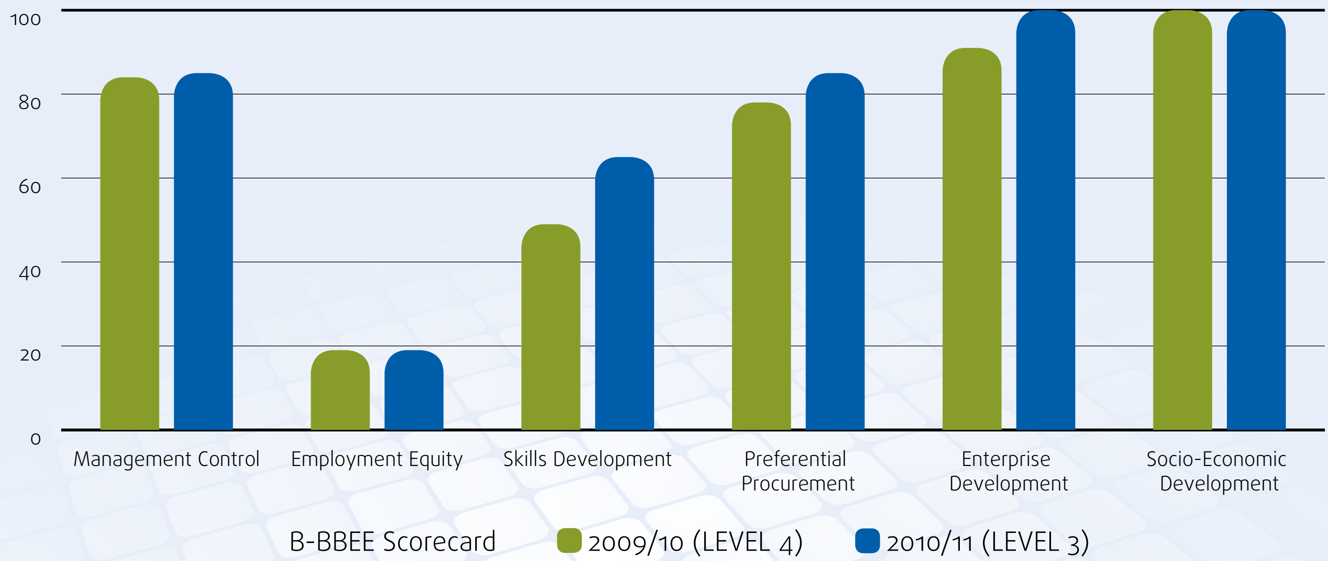
Capacity Building of Transformation Committees

In the year, a comprehensive re-training of all transformation committee members took place under the leadership of the Group HR and Transformation executive. The aim of the training was to improve committee members' understanding of legislation and their roles in the committee.

Denel's performance on B-BBEE

This is the second year that Denel has been evaluated by an external agent on B-BBEE. The group's target was to achieve an overall level 4 score for the 2010/11 period and this has been exceeded as illustrated in the graph below. Denel has engaged EmpowerLogic Verification Agency to verify B-BBEE performance for all business entities including the corporate office.

Group B-BBEE performance 2009/10 vs. 2010/11



Denel has improved, in all aspects of the B-BBEE requirements, with an overall improvement score of 75.73% (2010:69.48%). This score makes Denel a 110% contributor and adds value to our suppliers. The challenge, however, still remains with the employment equity. Denel continues to work hard on this aspect and we are beginning to make in-roads as we have managed to improve slightly to 19.34% (2010:18.95%). The new financial year will see Denel placing greater emphasis on having an equitable and representative workforce at all levels.

Improving organisational climate

Business entities' climate improvement plans are evaluated annually by an independent consulting firm. The overall group score for this reporting period is 69%, which is 1% better than the previous year (68%). The table below illustrates the performance indicators designed by the company to track its progress:

Score	Transformation Status	Description
100%	Transformed	This level shows exceptional achievement of targets in the transformation plan of a business entity that is far beyond expectation. Transformation has become embedded in the business entity's culture and practices.
80% - 99%	Sustaining transformation	This level indicates that an business entity has achieved over and above their planned initiatives, meaning the business entity is moving beyond contracted targets.
60% - 79%	Transforming	This level shows that the business entity has achieved their planned transformation initiatives and in so doing they are regarded as a "transforming" organisation.
0 % - 59%	Inadequate transformation	This level indicates that the business entity has not achieved and/ or implemented the transformation initiatives as planned.

It is important to note that the year was characterised by job losses through retrenchments and this had an impact on morale. A group-wide climate survey is scheduled to take place in August 2011 to evaluate the company's current climate after many initiatives were implemented to improve the climate. Group-wide climate surveys were previously carried out in 2006 and in 2008.

Socio-Economic Development

Denel believes that it has a significant role to play in contributing to the economic development of the country and as such acknowledges its responsibility towards the sustainability of economic, environmental, and social conditions. As part of its transformation drive and in line with its value to be a caring organisation, Denel has spent R12m on education enhancement-related projects and an additional R1.9m on non-educational projects in the year. Denel is also actively involved in nation-building initiatives such as Mandela Day. For more detail refer to the *socio-economic development* section on page 74.

Socio-economic development

Overview

Denel contributes to the economic development of the country and embraces its responsibility towards sustainability in terms of the economy, environment and society. Denel's overall aim is to empower, improve and transform the lives of people, and some who are non-participants in the economy, are to be included into the economic mainstream in a sustainable manner.

Denel's corporate SED responsibilities extend beyond benevolence and focuses on successful community engagements, with a strong developmental theme. Denel continues to build a reputation that reflects its culture and identity of being caring, whilst endeavouring to improve fellow human beings. Responding to the country's socio-economic conditions has provided Denel with opportunities to enhance its brand and promote the company reputation as a responsible corporate citizen.

The group focuses on SED activities that are aligned with its business strategies. SED, incorporating corporate social investment, is a major cornerstone for responsible corporate citizenship. It therefore forms an integral part of our B-BBEE transformation, corporate accountability and governance programmes. Denel recognises its responsibility to have a long-term positive impact by taking advantage of opportunities to create a favourable overall SED environment in the South African landscape. Therefore, Denel believes it is important to expand its horizons and consider its contribution as a multifaceted premium, as downstream businesses benefit from improving the lives of society, despite the financial constraints and challenges experienced across the group.

Denel participates in SED in accordance with its corporate policy and guidelines. These roles and responsibilities are defined, and take place at both group and business entity level. The overall responsibility at group level rests at an operational executive management level. Committed to partnering with government and industry to meet South Africa's socio-economic and development needs, the group has embarked on a number of SED 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.

Material focus areas relate to:
- Employees training and awareness
- Education initiatives and programmes
- Enterprise development
- Other socio-economic development initiatives

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 social and economic development initiatives. This takes place through the submission of ideas, volunteering outside of and within normal working hours, and making monetary and non-monetary donations. Enhancing the awareness of initiatives to employees is ongoing. A formal internal communication strategy is functioning well, thereby ensuring that employees are aware of the various events, initiatives, challenges, etc within the organisation. A healthy relationship exists with Unions and other employee representatives, to ensure open communication lines and solution-orientated engagement. Reporting takes place to ensure that initiatives and outputs are effective and measurable. The reporting includes the extent to which objectives and targets have been met, recommendations for improvement and any other significant matters, e.g.:
- Disability Calendar: A disabled employee on a learnership at DISS was afforded an opportunity to appear in a calendar featuring people living with disabilities, thus providing an excellent opportunity to reflect our continuous commitment to the uplift of the disabled. The proceeds of this project were donated to Casual Day, a flagship initiative in communities to heighten awareness of the disabled.
- A variety of wellness programmes, personal development workshops, counselling, HIV/AIDS policies, and a forum for those aged 35 and younger, to interact with their peers as well as programmes aimed at older employees to maximise their effectiveness and commitment, are in place.

- Denel Properties offers a supportive structure to contribute to the health and wellness of staff in the workplace, thereby improving business effectiveness and staff morale. Wellness Day activities include free testing of blood pressure, cholesterol and blood glucose, and employees with abnormal readings (low and high) are reported to the onsite OCSA clinic for continuous monitoring.

Education initiatives and programmes

This entails skills development including training and development interventions, starting with programmes aimed at schools and progressing to tertiary institutions, internships mentorship programs and talent management, which reflects the golden thread in this sphere across the group. Denel's business entities host holistic programmes to develop engineers. Ultimately the goal is to deliver productive design engineers, who are able to compete with the best in their fields of expertise. Some of the engineers volunteer their skills and time over weekends to tutor learners. Highlights include:

- Mathematics and science programmes are embarked upon principally by Dynamics and Denel Aviation. Outcomes and achievements are:
  - Accommodating these programmes at a secondary school, to a university engineering bursary programme, leading to an internship programme for young qualified engineers. Workbooks and stationery, which includes scientific calculators and meals for the pupils, are provided. This is over and above the funding of professional teachers. Denel teach mathematics and science to high school students in neighbouring communities, to grow the pool of prospective qualified students.
  - Efforts are already producing dramatically improved results in the mathematics and science marks. In 2010, some of the students received distinctions in mathematics and some learners surpassed the 80% mark in physical science during the matric exams.
- Dynamics is involved in the Youth Science Focus Week (held by the South African Agency for Science and Technology), by providing career guidance to 40 of the top 100 Science learners in Grades 10 to 12. The aim is to encourage the top young minds to take up engineering as a career, thus increasing the pool of engineers in the country.
- Denel Aviation is responsible for the training of 90 young apprentices who will eventually service the entire aviation sector, and who constitute the majority of the new artisans and technicians entering the job market each year. This represents an investment of approximately R100 000 per year per student.
- Besides investing in a technical training facility where artisans are trained on site, PMP's educational infrastructure and focus is on the financial support of learners. It also contributes to the upgrade of learning facilities which support students in the areas of technology at institutions of further and higher education within the immediate vicinity of PMP. There is additional financial support to a school for learners with disabilities and special education needs.
- Mechem allocated positions on the dog handler's course, at cost to the company, to students from disadvantaged communities. This programme costs R25 000 per student.
- OTR supported engineering students from the University of Cape Town during their annual 'space camp' with the launching of two rockets with electronic payloads installed.

This support formed part of the students' exposure to a real life test execution environment.

- Denel Properties aims to foster scarce skills required for business by establishing the training centre at the Irene site. Students are trained with an initiative from Isett SETA for end user computing Mappp, SETA, Agri SETA and Services SETA with a programme to train 300 domestic workers. 306 students were trained during the year in various disciplines, these include: ABET level 4, National and FET certificates in new venture creation (SMME) (NQF level 4 and 2 respectively) and, further educational and training certificate: business administration services.

Community initiatives that provide some insight with regards to some of the quantitative contributions and impacts on the affected communities by our business entities:

	Amount spent R'000		Targets R'000			
Description of project	2011	2010	2011	2010	Description of impact	Reasons initiative chosen
DPS: - Learners - CSI within client environment	1 567	1 882	1 766	1 889	- To ensure pipeline of young artisans is built for Denel as well as the aviation industry. - Assists disabled, rape victims, orphans and old aged	- To address SA's shortage of skilled artisans and ageing work force - Joint effort so as to reach a larger community with our limited resources
MECHEM: - Sponsorship of students for dog handling course	84	132	108	120	- Positive and a new and unusual career introduced to students	- Encourage less fortunate students to expand their horizons
PMP: - Tshwane South College for FET - Zodwa School for learners with special educational needs - Technical skill outreach training (universities of technologies)	210	149	250	180	- Positive	- Support of students in technical/ engineering fields relevant to activities of PMP - Community based support of learning and development programme of children with special needs - Technical in-service training of students in engineering studies at Universities of technology
Dynamics Missiles and UAVS: - Saturday mathematics classes for pupils from previously disadvantaged communities - Bursary scheme for tertiary studies - South African Women in Engineering	4 593	5 295	Specific targets have not been set, however these initiatives can be considered part of the B-BBEE targets and Dynamics are on track to achieve these		- Increase in the number of pupils from previously disadvantaged areas to obtain a maths and science related qualifications - The pool of engineers, particularly black engineers, in South Africa increase - Increases the number of females studying engineering	- To grow the number of learners taking up engineering as a field of study in order to increase Denel Dynamics' and the country's skills base - To meet skills shortage - To increase the pool of female engineers for Denel to attract. This also contributes to the company`s diversity

Description of project	Amount spent R'ooo		Targets R'ooo		Description of impact	Reasons initiative chosen
	2011	2010	2011	2010		
DLS: - External bursaries - Bula-Dikgoro primary school - Independent Kidz - CSI-students - Nakakela and Mamelodi Baptist Church	405	524	405	524	- Creating a skills base	- To ensure the availability and sustainability of engineering skills
OTR: - Wagenhuiskrantz Primary and Struisbaai school support with payment of teachers salaries	37	52	49	52	- Affects approximately 400 learners - Individual attention to learners and better results	- To improve the level of literacy and numeracy at schools
Denel Aviation: - Eskom expo for young scientists (regional and national sponsor) - Airshows in South Africa, Scifest, Sci-Bono (exhibitor and sponsor) - Denel Aviation Super Flyer - Mathematics and science classes (Grade 11 and 12)	1 935	1 888	1 935	1 888	- Stimulating learner's interest in the aviation industry - Creating awareness of mathematics, science, engineering and technology	- To develop a Denel Aviation programme for young learners with ongoing support and resources
DSA: - Sci-Bono (exhibitor) - Education sponsorship	796	395	819	1 341	- Creates awareness amongst learners in the aviation Industry	- To develop a DSA programme for ACI young leaders with support and resources
DTA: - 50 learners taught at the Denel facility for 11 months - Schools outreach program in the North-West Province - 4 ex-DYFTP learners on bursary schemes and on apprentice programmes	5 200 990 85	4 000 650 120	3 500 990 85	4 000 330 120	- To bridge the gap for the opportunity to study towards engineering. - Contribution toward artisan development	- To address countries shortage of engineering skills - Partnered with Basic Education Department to increase the Gr12 pass rate - Skills development
RDM (Associate Company): - Apprenticeships learnerships, interns, bursaries, etc	4 782	1 103	4 796	1 184	- Provides opportunities for students and allows access to further education that is not available otherwise	- To address high level scarce skills and shortages of artisans - Supports succession planning - Creation of skilled workers

Enterprise development

Regarding identified enterprise development, business entities focus attention on a variety of aspects. These include technical support which assists with enabling manufacturing competitiveness; support with contractual requirements, which centres on assisting with terms and conditions; and business communication, which concentrates on communication and clarification of engineering requirements, specifications and quality compliance, with the focal point on the ISO certification and product conformance. Our business entities have enterprise development which is unique in technical and investment value.

Enterprise development initiatives that provide some insight with regards to some of the contributions and impacts on the affected communities by some of our business entities:

	Amount spent R'000		Targets R'000			
Description of project	2011	2010	2011	2010	Description of impact	Reasons initiative chosen
DPS: - B-BBEE initiatives	2 321	2 419	2 522	2 419	- Greater empowerment	- BEE
PMP: - Lebuwe Centre for physically disabled adults - Sinjana Engineering - Swift Waste Removal	702	954	840	750	- Positive	- Development of black small and micro suppliers to enable them to become sustainable business entities
Dynamics Missiles and UAVS: - Dynamics product (technical) / Commercial (service) support - Develop prospective BEE Suppliers	549	350	450	275	- Business enablers Competitiveness - Development of high-technology manufacturing capability	- Support sustainability - Grow product suppliers
DLS: - Dr Moodley - UHURU Caterers - Car wash services	1 167	-	1 167	142	- Medical consulting and catering services for the community	- 100% black owned
OTR: Various suppliers with regards to administration support, transport, etc	685	572	736	572	- Growth and development of suppliers	- Job creation
Denel Aviation: Shorter payment period to EMC/QSE with black ownership	200	1 061	800	800	- Enhance cash flow in order to create sustainability of EMC/QSE with black ownership	- Assisting in the sustainability of EMC/QSE with black ownership
RDM (Associate Company): Various suppliers with regards to administration support, transport, etc	3 368	-	3 627	-	- Allows retrenched employees to start businesses and sustain initiatives - Ensure compliance for BEE	- To choose the best suitable companies to assist them to achieve and be sustainable

Illustrated below are various additional efforts of our business entities:

- DISS: has identified one of its suppliers, to develop as its enterprise development beneficiary. It was identified as it contributes to the technical success of DISS. The intention is to develop a long-term relationship with this supplier, as their enterprise development beneficiary.
- Deniprop: identified an area of concern and established a training centre which not only trains students but also assists with the development of contractors in project and financial management. This training centre is a community-based projects company for the Department of Labour.

Although only the investment in terms of money is reflected within this report, the investment in terms of time (though not formally tracked) is substantial and often takes place outside business hours. Our business entities have evolving procedures for data collection which are included in the audits, thus ensuring data accuracy, with the ultimate goal to obtain year-on-year progression. There is a move to set up targets as KPIs.

Other socio-economic development key initiatives

Other than the projects and initiatives already mentioned our business entities are also involved in a variety of other initiatives within the broader community. The nature of the projects includes, but is not limited to: healthcare and welfare, community training, skills development, animal welfare, conservation activities, arts, culture, sport and other opportunities for uplifting the quality of life of communities. Key initiatives include:

- DISS joined the Denel-wide initiative in celebrating Mr Mandela's birthday by participating in a soup kitchen at a crèche in the Mooiplaas informal settlement. Blankets and hot meals were distributed to members of the Mooiplaas community. OTR celebrated by raising funds to buy heaters, carpets, beds, bedding for Nompumelelo pre-school and the occupants of 'Ons Huis' in Bredasdorp.
- The Mechem Somalian team supported the international Mandela Day celebrations by providing food parcels to displaced families in the secure area of Amisom in Somalia. In Luanda Angola, Mechem donated food, amongst other supplies, to feed at least 80 aged people in the community.
- On an annual basis, each department within Dynamics identifies a social development project that it will drive during the course of the financial year. These projects can take any form as is deemed appropriate by the specific department, but the general requirement is that the department will provide financial support and/or own labour.
- Dynamics, OTR and RDM support less fortunate employees by providing transport. In addition, clinic facilities are also available. The cost of these initiatives to these business entities range from R0.5m (Dynamics) to R1.265m (RDM) for the year.
- DLS contributed to the Abraham Kriel Children Home by painting, cleaning and planting of trees.
- OTR supported various outreach programmes focused on the uplifting of the less privileged in Bredasdorp and surrounding communities. The Suideroord Old Age Home, Liefdesnessie and Elim Home (institutes providing care, food and recreation for the needy, elderly and disabled) were beneficiaries of donations of furniture and other supplies. In support of youth development, soccer balls and netballs were donated to the Napier community, while support was provided to talented learners to enable them to attend scientific expos. Learners also got to enjoy the festive season with in the donation of sweets packets.
- DSA is involved in a project called 'Buckets of Love'. Buckets were filled with candy, juices and messages and were distributed to less-fortunate children during the festive period.

- Due to Mechem's involvement with working dogs, an annual contribution is made to reputable animal care organisations such as the SPCA or Border Collie Rescue Services and other deserving animal care organisations.
- Mechem also made the strategic decision to adopt and financially assist three charities that are different in their focus areas:
  - Leratong, a palliative care institution within an informal settlement in Atteridgeville. This institution cares for HIV/AIDS terminally ill patients and also runs a home based care programme within the said community.
  - Jakaranda Children's home, which is an institution or home for abused and destitute children, supports house no. 14 on an on-going basis by providing it with financial assistance to supplement the house grocery bill.
  - Mohau Children Centre, an organisation that cares for HIV/AIDS orphans in Atteridgeville, supported the renovation of the whole residence ablution facilities last financial year and also supplied all children with school shoes, bags and stationery for the year 2010/11.

Looking forward

Our key challenges, amongst others, are to live our vision and values as a respected South African company, and enhance our SED contributions in support of the wider government initiatives such as skills development and poverty alleviation. With this in mind, Denel is cognisant of the need to pursue these goals and challenges with greater passion and vigour. The company will attempt to influence and encourage our partners to become more involved in these initiatives.

Risk governance

Overview

Effective management of risk and opportunity is essential for the achievement of the group's objectives, sustainable shareholder value and the protection of Denel's reputation. The group's approach to risk management entails early identification of key risks, eliminating or reducing the likelihood and impact of risks before they occur, and dealing effectively with them if they materialise.

Political uncertainties in various parts of the world, particularly in North Africa and the Middle East, are likely to have an impact on the risk profile of the group. This comes on the back of the 'credit crunch', which remains a significant contributor to low order cover and an adverse impact on the resultant revenue streams. As a global player and exporter, the current exchange rate impacts negatively on the competitiveness and profitability of the group. In addition, the losses posted by DSA have an impact on the group's financial performance. Performance on programmes is directly affected by project risks, arising from the long-term nature and the complexity of the programmes, ever-changing technology and other related risks inherent in the contract environment. This impacts delivery, cost and financial performance, amongst others. The defence industry is highly regulated, and compliance with laws and regulations is a primary requisite for doing business in this industry. These factors form the core of the group's risk profile.

The group is committed to the protection of its human, property and financial resources through an effective risk management process. Risk management is linked to the group's strategy, appetite for risk and the achievement of the group's business objectives. Risks are continuously monitored, risk response plans reviewed, appropriate contingencies are provisioned and this information is reported through established management control procedures. Denel's primary goal is to embed and integrate risk management with all business processes to ensure risks and opportunities are identified, assessed, prioritised and addressed. Stewardship for assets, safe and effective operations, as well as good governance, are imperative in order to achieve the group's objectives.

Group top ten strategic risks identified	
1	DSA order pipeline, operational and sustainability challenges and resulting group exposure
2	Weak solvency and liquidity position
3	Low local order cover due to current defence spend
4	Global events impacting the international orders
5	Prioritisation of infrastructural and social development over defence
6	Programme management (project risks)
7	Investment in technology
8	The strong Rand impacting competitiveness and profitability
9	Loss of critical skills and low morale
10	Supply chain sourcing and risk management

Risk management process

The board has the overall responsibility for risk management and the audit and risk committee has been delegated to review the effectiveness of the group's system of internal controls, including risk management. Executive management is accountable for management of risks including those associated with safety and ethical conduct. Each business entity identifies, manages and reports risks to its board and audit and risk committee. The executive committee considers risks at corporate strategic level and advises the Denel board on all matters within the latter's remit, including matters escalated by business entities.

Risk and opportunity identification is initiated during the corporate and business planning process and the plans are approved by the board annually. Risk management is continuously reviewed by management and reported to the group executives on a monthly basis. The risks and responses are tabled at the group Exco, as well as included in the monthly reports to the Shareholder. There is a comprehensive and more formalised risk assessment process that is conducted by group Exco bi-annually.

The risk reports are tabled at audit and risk committees, as well as the board.

	Process	Output	Frequency
Risk and opportunity identification is initiated during the corporate and business planning process, and continuously monitored. Sensitivity analysis and budget stress-testing, programme management reviews and monthly budget and operational effectiveness reviews are conducted	Denel board approves a consolidated five year corporate plan, in relation to the Shareholder's Compact	Consolidated group corporate plan	Annually
	Business entity boards approve their specific annual to five year plan based on their business strategies to meet the corporate plan requirements	Entity business plans and budgets	Annually
	Denel executive management conducts sensitivity analysis and budget stress testing	Consolidated group forecast and update	Bi-annually
	Corporate review of major programmes	Programme performance and risk update	Quarterly
	Business entity performance reviews	Financial and operational performance update	Monthly

In order to assist the committees and the board, independent reviews are undertaken by internal and external audit, which forms the group's process for evaluating the effectiveness of internal controls and risk management.

Denel Risk Governance Process

Key risk factors

Denel's risks arise from trends in the global, national and local arena and specifically, economic, social, political, technological and regulatory factors and internal activities. A process of risk identification, risk assessment, risk response and monitoring is followed to manage risks. Risks are reported to the board, the Shareholders and Stakeholders by the Executive Management.

The responsibility for risk identification, assessment, mitigation, reporting and monitoring rests with line management. Reporting within the group allows for escalation of key issues through executive management, the audit and risk committees and ultimately to the board and the Shareholder. The audit and risk committee reports the findings of its reviews to the board so that the board can form an opinion. As with any system of internal control, the policies and processes that are contained in the operational framework are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss. Further details of these business processes and mandated policies are given in the *group overview* and *corporate governance* sections, pages 8 and 85 respectively.

Strategic Risks

The top ten strategic risks as at year-end are as follows:

Risk strategy	Consequence	Risk response
1. DSA order pipeline, operational and sustainability challenges resulting in group exposure	As a major contributor to losses, DSA will adversely affect the turnaround pace and sustainability of the group.	This business entity forms part of the group's restructuring programme to mitigate its exposure.
2. Weak solvency and liquidity position	A weak liquidity and solvency position adversely impacts the sustainability of the group.	The group is implementing funding strategies, improving cash flow management and increasing profitability. It is also in discussions with the Shareholder regarding recapitalisation.
3. Low local order cover due to current level of defence spend	Local orders are affected by the activities of the DoD and the allocation of budget it receives. Current reduced defence spend on equipment and technology impacts sustainability.	Emphasis on increasing international business, thereby reducing dependence on local orders.
4. Global events impacting the international orders	Global developments impact export revenue streams as they increase competition and delay deals.	The group markets its products globally to access sustainable markets.
5. Prioritisation of infrastructural and social development over defence	The group's major contracts are with governments, the budgets of which are under pressure with defence spend a low priority. Moving spend on defence to other priorities adversely affect the group's revenues.	The group markets its products globally to access sustainable markets.
6. Programme management (project risks)	The nature of the group's business is inherently risky, with implications for delivery, cost and quality.	The group implements a programme management process, which ensures quality delivery on time and cost. Furthermore reviews are held regularly with customers to update them on progress.
7. Investment in technology	The speed of technology advancement requires continuous investment in R&D to ensure that changing customer needs are met. Inadequate self-funded R&D spend impacts the future sustainability of the business.	The group conducts market and technology reviews to keep abreast of market needs. There is R&D investment being made, mainly funded by clients. Endevours are being made to access R&D funding.
8. The strong Rand impacting competitiveness and profitability	The fluctuating Rand, as well as the weakening of the Dollar, against major currencies negatively impacts competitiveness and profitability of the group.	The group performs treasury procedures including forward exchange cover/hedging to mitigate the exchange rate risk.
9. Loss of skills and low morale	Socio-economic factors such as ageing workforce and skills shortages present challenges for skills retention and employee motivation. This could impact on corporate memory, productivity and the competitiveness of the group.	The group has implemented skills development and talent management programmes, retention and transformation programmes to attract and retain skills.
10. Supply chain sourcing and risk management	The group depends on suppliers to meet its objectives and cost-efficient sourcing of inputs. Supplier performance impacts on the performance of the group.	The group implemented procurement frameworks to optimise procurement processes, cost and performance of sub-contractors/suppliers.

Operational risk control systems

As indicated above, OHS, environmental responsibility, anti-fraud, corruption and compliance programmes are being implemented throughout the group in response to related risks. An update on these is provided in these sections of the *sustainability report* on pages 84, 100 and 103.

Fraud prevention and anti-corruption

Denel has a fraud prevention plan in place as part of the system of internal control, the main objectives of which are to:

- Create a culture which is intolerant of fraud
- Prevent and detect fraud
- Investigate incidents of fraud
- Take appropriate action to prevent recurrence

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 the ethics hotline was assessed and communication increased to heighten awareness of this mechanism.

The confidential ethics hotline number 0800 20 4880, is independently operated and all stakeholders are encouraged to make use of it. A total of 17 cases of alleged unethical behaviour were recorded during the year. The cases were assessed and it was found that the majority were related to allegations of policy breaches and general complaints. These were addressed through internal processes and feedback was given through the hotline. Two cases relating to allegations of receiving favours, and trading in the workplace were investigated, no evidence was found to support the allegations.

Ethics

Denel has an employee ethics policy which underpins its value of integrity, and codifies the principles of good governance contained in various policies of the organisation, to create an ethical business environment. The policy commits the group to sound business practices and compliance with applicable laws and regulations and 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 gifts received in a gift register.

Directors and senior management personnel declared their interests and these are reported at the audit and risk committees of the various business entities. During the year, the Denel board approved a policy governing the external interests of executives and senior management.

Reference to the fraud prevention plan and employee ethics policy is also made in the *corporate governance* report on page 85.

Compliance

Denel's compliance programme includes the continuous identification and monitoring of laws and other relevant aspects of regulation that impact its business. The objective of the programme is to prevent breaches as far as practical, detect breaches and take corrective action. The programme is executed by executive management and includes appointed functional specialists, legal experts, legal updates information system, line management processes and is overseen by the audit and risk committees. Denel's regulatory compliance universe centres on laws and standards that regulate defence trade, public finance, as well as general statutory, regulatory and product responsibility compliance as below:

- **Statutory and public finance management**
  - Public finance management Act
- **Aviation - Aviation Act**
  - Maintenance and repair
  - Training facility
- **Arms control**
  - National Conventional Arms Control Act
  - Non-proliferation of weapons of mass destruction
  - Firearms control Act
- **Security**
  - National Key Points Act
- **Sustainability**
  - Occupational Health and Safety Act
  - Hazardous Substances Act
  - National Environmental Management Act
  - National Environmental Management Act – protected areas

Arms control ensures that development, manufacturing and servicing permits as well as marketing, contracting, import and export permits are obtained and proper authorisation for controlled items is followed. Nothing significant has come to the attention of the board during the year suggesting possible non-compliance.

Health, safety, environmental and quality management, as well as OEM accreditation systems, are implemented as part of the compliance programme. An update on health, safety and environment is given in pages 100 and 103.

Corporate governance report

Overview

Introduction

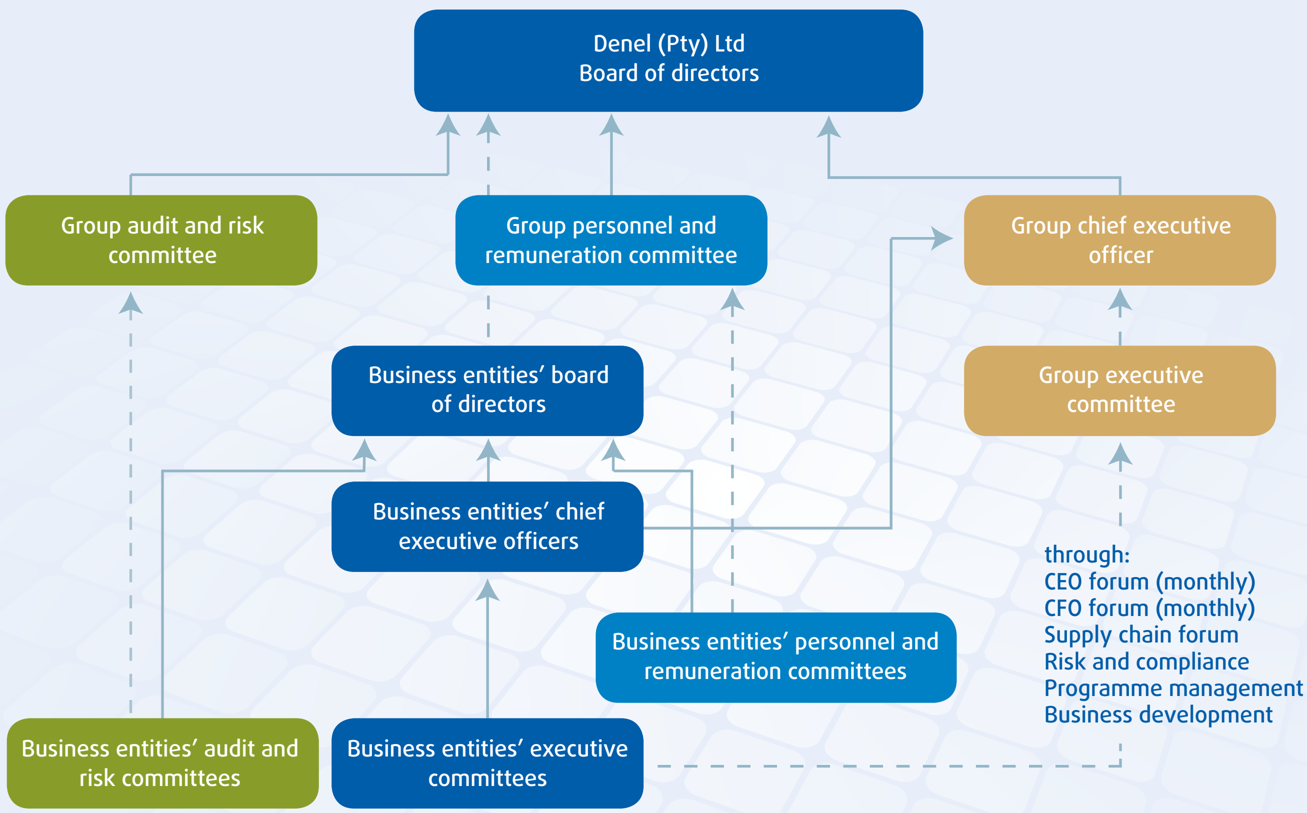
The company has a mature corporate governance process that meets most of the requirements of the King III Report, as well as the new Companies Act which became effective shortly after year-end. Statements regarding Denel's adherence to the King III Report on corporate governance are set out in this report. This report details certain governance principles and the main duties of the chairman, committees and chief executive officer. The board charter includes a schedule of matters reserved for the board and the terms of reference of various board committees.

The directors are committed to maintaining high standards of corporate governance, which is seen as fundamental in discharging fiduciary duties. The board provides leadership, strategic oversight and oversees the control environment in order to achieve and sustain value to the company's Shareholder and stakeholders. The board ensures adherence to principles of good governance and accountability. All of the members of the board are individually and collectively aware of their responsibilities to the company's stakeholders, as each director brings experience, independence of character and judgement. The board ensures regular review of its performance and core governance.

Responsibility and accountability

The board of Denel is responsible for ensuring that an adequate and effective process of corporate governance is established and maintained. In executing this mandate, the board has set up a corporate governance framework that forms part of delegation of authority and is supported by the company's internal policies, internal controls and regulations as depicted below.

A summary of the company's corporate governance systems is depicted below:



The day-to-day governance is the responsibility of Denel's management, which regularly reports to the various committees and board. The board and the audit and risk committee chairmen play an active role in driving and addressing the corporate governance issues that arise from time-to-time through regular interaction with executive directors, senior management and other stakeholders, where necessary.

The board of directors

Per the articles of association of the company, the Denel board comprises a minimum of two and a maximum of 16 directors. The company is governed by a unitary board, comprised of two executive directors, the chief executive officer and the chief financial officer, as well as nine non-executive directors, who all meet the board's independence criteria.

Appointment and retirement of directors

Denel's Shareholder appoints the independent non-executive directors and the chairman of the board. The executive directors are appointed by the board and are communicated to the Shareholder to complete the process. In line with the requirements of good governance, the Shareholder reviews the composition of the board on a regular basis. The retirement of non-executive directors follows a staggered process with some directors retiring at least every three years at the AGM.

There is no prescribed term of office for non-executive directors. However, in line with best practice in corporate governance and in terms of the articles of association, the directors resign when their term of office expires at the AGM, but can stand for re-election.

Executive directors are not subject to a rotation process, as they oversee the day-to-day running of the company. They are held accountable for the operational and management performance of the company. Their performance is measured bi-annually with reference to KPIs set by the board.

During the year, a number of changes to the board membership occurred. The following members resigned at the AGM held on 27 August 2010: Messrs Halse, Phalatse, Savage, Ms Mulder, and Ms Seretse. The following four member's term of office was extended for a year: Dr Sibisi, Messrs Hirsch, Jones, and Ms Chaba, which will end at the next AGM, scheduled for 6 July 2011. Dr Cruywagen and Mr. Kunene were re-appointed for a further three years. Prof. Marwala, Ms Janse van Rensburg and Ms Paledi, whom are from different professional backgrounds, were appointed as board members for a three year term.

Directors formalised appointment and remuneration

Executive directors have contracts of employment with the company, whilst non-executive directors have their appointments formalised by a letter of appointment from the Shareholder. This appointment letter indicates the non-executive directors' term of office as well as information pertaining to remuneration.

Remuneration payable to non-executive directors includes fees for attending board meetings, sub-committee, ad hoc and relevant business entity's boards. The fees are based on the guidelines provided and approved by the Shareholder at the AGM. There was no increase in the director's fees proposed at the last AGM held on 27 August 2010. Details on the remuneration of executive and non-executive directors are presented in the *remuneration report* on pages 133 to 134.

Director independence

The independence of directors is guided by the King III Report, the Companies Act and best practice. The independence of individual non-executive directors is considered at every board meeting and formally evaluated every alternate year by an independent consultant as part of the board's effectiveness review. In the year when there is no formal board evaluation process, self-assessment questionnaires are completed, considered by the board, and any resulting issues addressed.

The independence and effectiveness review of the board members was performed by an independent firm of consultants during early 2010. The report confirmed that the board was effective in performing its oversight role. In particular, affirmation was received regarding the independence of Dr Sibisi, who was appointed in 1998 as director and in 2005 as chairman of the board. The evaluation results indicated that the performance, skills and knowledge and the contribution of the chairman to the board's performance was of a high standard and that his independence of character and judgment was not in any way affected or impaired by the length of his service as a director. The evaluation report was tabled at the last AGM and it confirmed the effectiveness, independence and complementary skills of the board. The relationship between members of the board and management was found to be characterised by transparency, openness and trust. The report was considered during the AGM, when the term of office of some of the board members was extended. The next board evaluation is scheduled for 2012.

The independent non-executive directors serve on the audit and risk, personnel and remuneration and business entity boards. The board is satisfied that the directors bring insight and experience that is independent of management and the Shareholder.

Topics covered in the board's effectiveness evaluation included the following:

- Key role players – general view
- Board meetings
- Committees of the board
- Role and responsibilities of the board
- Relationship - board and management
- Accountability of the board for risk
- Skills needed at the board
- Communication between meetings
- Visible corporate governance
- Stakeholder relationships

Board induction and sharing of information

New directors undergo a detailed induction to ensure a comprehensive understanding of Denel's legislative framework, governance processes, delegation of authority and business operations. Directors are continuously briefed on relevant new legislation and regulations. The induction and continuous training includes the board meetings being held at different business entities, to allow the directors an opportunity to interact with business entity executives. The practice includes circulating monthly reports to the board members to keep them abreast of developments outside of the scheduled board meetings.

All non-executive directors have access to management and the records of the group, as well as to external professional advisers should the need arise.

Board meetings

The group holds five scheduled board meetings annually, as well as an AGM. All documents that are submitted to the board for discussions are meticulously prepared by the executives, taking into account matters arising from previous board meetings, ensuring completeness and other relevant matters for the board's consideration. Non-executive directors have unfettered access to the executive team and any other employees of the group to seek explanations and clarifications on any matter(s) prior to or following a board meeting. This facilitates the board's discussions and assists it in reaching speedy but informed decisions.

Members of the executive committee attend the board meetings as and when they need, to report to the board on their respective operational areas. The following table depicts the meetings of the board and the attendance of each member:

Board meeting attendance

Board member	BOARD MEETINGS					AGM MEETING
	4 May 2010	30 Jul 2010	4 Oct 2010	9 Dec 2010	15 Feb 2011	27Aug 2010
Dr SP Sibisi (Chairman)	√	A	√	√	√	√
Mr MT Sadik	√	√	√	√	√	√
Ms SH Chaba	√	√	√	√	√	√
Dr GC Cruywagen	√	√	√	√	√	√
Mr A Hirsch	A	√	A	√	√	√
Dr BG Halse †	√	√	-	-	-	A
Mr LC Jones	A	√	A	√	√	√
Mr NR Kunene	√	√	√	√	A	√
Ms MJ Janse van Rensburg*	-	-	√	√	√	-
Prof T Marwala*	-	-	A	√	√	-
Mr F Mhlontlo	√	√	√	√	√	√
Ms CC Mulder †	√	√	-	-	-	√
Mr MS Phalatse †	√	√	-	-	-	A
Ms B Paledi*	-	-	√	√	√	-
Mr CML Savage †	√	A	-	-	-	√
Ms T Seretse †	√	√	-	-	-	√

† Resigned during the year
A Apology
** Appointed on 27 August 2010*

Company secretarial

The group company secretary is responsible for developing systems and processes which enable the board to discharge specific functions efficiently and effectively. She is responsible for advising the board on corporate governance issues, setting the annual plan for the board in conjunction with the chairman and monitoring compliance with the Public Finance Management Act, the Companies Act and other relevant legislation, as well as keeping the board updated on new relevant legislation. All directors have access to her services and guidance.

Board committees

The board has established and delegated specific roles and responsibilities to two standing committees, namely, the audit and risk committee, and the personnel and remuneration committee. Both standing committees are chaired by an independent non-executive director.

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

Meetings of the board committees are held three times a year. Members of the executive committee are regular attendees at the board and committee meetings in line with their roles and responsibilities.

In order to keep the board abreast of the activities of the committees, the minutes of the committee meetings are included in the board meeting pack for information, and significant matters discussed at these committee meetings are debated by the board.

Audit and risk committee

Membership of the audit and risk committee, including its chairman, comprises only independent non-executive directors and executive directors are standing invitees to committee meetings. All members of the committee have the considerable financial and risk management experience necessary to oversee and guide the board. These include the audit and risk functions, the governance of risk, and IT risk, as recommended by King III.

In line with the recommendations of King III, and in anticipation of the new Companies Act 2008, for the first time the appointment of members of the audit and risk committee was tabled at the AGM, held on 27 August 2010. The relevant resolution was duly passed, with the proviso that the board appoints the chairman of the audit and risk committee. Their next re-appointments will be considered and voted on at the AGM.

Two members of the committee, namely the chairman and one of the members, resigned during the last AGM. These changes were attributable to the change in the board as detailed under appointments and resignations in page 86.

The committee has terms of reference that are reviewed and updated for relevant new legislation and best practice. The committee's mandate is to ensure the integrity of financial reporting; the adequacy of governance; soundness of the internal control environment and the robustness of risk management processes. The roles and responsibilities of the committee are detailed in the *report of the group audit and risk committee* on page 122 and include the following:

- Reviews the financial statements and consider reports of the auditors on the financial statements.
- Reviews risk registers, paying attention to risks, mitigation actions and the overall risk management.
- Reviews the effectiveness of the company's internal controls.
- Considers matters emanating from the company's ethics hotline, management planned actions and the results of enquiries.
- Agrees the scope of the auditors' work and their fees.
- Monitors the performance of the internal audit function.

The committee chairman meets regularly with the external auditors, the group's internal auditors and the group financial director to consider the audit plans, the scope and status of the audits, as well as progress on resolving significant issues.

The committee holds at least three meetings in any particular year. The committee has an annual work plan to ensure that all relevant matters are covered by the agendas of the meetings planned for the year to ensure adequate coverage of the matters as laid out in the terms of reference.

The invitees to committee meetings include the two executive directors, internal and external auditors, the group treasury manager, the group risk and compliance manager, and other executives responsible for the company's operations (when necessary). The group audit and risk committee meets with the internal and external auditors without the presence of management.

At meetings of the committee, the committee fulfilled its responsibilities as set out in this report. Refer to page 122 of the *group audit and risk committee's report*.

The group audit and risk committee held three meetings during the financial year as detailed below:

Audit and risk committee meeting attendance

	AUDIT & RISK MEETINGS		
COMMITTEE MEMBERS	6 Jul 2010	5 Nov 2010	8 Feb 2011
Ms MJ Janse van Rensburg (Chairman)*	-	√	√
Ms CC Mulder †	√	-	-
Dr GC Cruywagen	√	√	√
Mr LC Jones	√	√	√
Mr CML Savage †	√	-	-
Prof T Marwala*	-	√	A
Mr R Boqo #†	√	A	-
STANDING INVITEES			
Mr MT Sadik	√	√	√
Mr F Mhlontlo	√	√	√

† *Resigned during the year*
A *Apology*
* *Appointed on 27 August 2010*
\# *Independent member*

Personnel and remuneration committee

The personnel and remuneration committee comprises of independent non-executive directors and is responsible for evaluating the performance of the executive directors and executive management, and for setting appropriate remuneration for such officers of the group.

The committee is responsible for overseeing the group's performance in respect of employment equity, transformation and staff development, taking into consideration the legal requirements and monitoring of targets set by the company. The committee is also responsible for skills development in terms of not only developing talent but also retaining skills and talent. Details of the company's employment equity practices and performance during the year, as well as the challenges the group faced in this regard, are provided in the report on *human resources* on page 66.

The performance of each executive is assessed relative to the prevailing business climate and market conditions, as well as to key predetermined targets. In accordance with principles of good governance, the executives being evaluated are recused from the meeting. Full details of the group's remuneration philosophy and payments for all directors are available in the report on pages 68 and 132.

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

The committee held three scheduled meetings and one special meeting during the 2010/11 financial year, as detailed below.

Personnel and remuneration committee meeting attendance

	P&R MEETINGS			
COMMITTEE MEMBERS	17 May 2010 (Special)	8 Jul 2010	1 Nov 2010	10 Feb 2011
Ms SH Chaba (Chairman)	√	√	√	√
Mr S Kunene*	-	-	√	√
Mr MS Phalatse †	√	√	-	-
Ms B Paledi*	-	-	√	√
Mr CML Savage †	√	√	-	-
STANDING INVITEES				
Mr MT Sadik	√	√	√	√
Mr F Mhlontlo	√	√	√	√
Ms TP Mushungwa	√	√	√	√

† *Resigned during the year*
* *Appointed during the year*

Executive committee

This committee is chaired by Mr Talib Sadik, the group chief executive officer, and comprises members of the executive team as detailed on page 38. The responsibilities of the committee include overseeing the day-to-day management of the group's affairs and executing the decisions of the board. It meets at least monthly and is actively involved in the strategy development, review of the group's values, safety performance, operation and monitoring financial performance.

Executive committee meetings attendance

COMMITTEE MEMBERS	EXCO MEETINGS Total number of meetings = 10
Mr MT Sadik (Chairman)	9
Mr F Mhlontlo	8
Mr JV Morris	10
Ms TP Mushungwa	9
Mr ZN Ntshepe	4
Maj Gen (Ret) OA Schür	9

Risk Management

The group has a sound system of internal controls, designed in terms of policies and guidelines. The board reviews and approve the risk strategy and policies formulated by the executive directors and senior management. Management is accountable to the board and has established a system of internal controls to manage the significant group risks. This system assists the board in discharging its responsibility to ensure effective management of the wide ranges of risks associated with Denel operations.

Further details of on the effectiveness of *risk governance* can be found on page 81.

Code of ethics

The board and employees adhere to the Denel Code of Ethics ('the code'). This sets ethical standards for business practice, individual business conduct, and assists all Denel stakeholders with their ethical considerations, choices, decisions and conduct when dealing with the company.

The group also has an independently operated whistle-blowing mechanism. This is a fraud hotline operated by an independent organisation. Matters that have been reported through this mechanism are investigated and reported to the group audit and risk committee. Depending on the nature of allegations, some of the matters end up being reported to appropriate law enforcement agencies, e.g. the SAPS. For more detail on fraud and related issues that arose during the year, refer to page 84.

Internal control

Responsibility for the system of internal control within Denel rests with the board. Responsibility for establishing and operating detailed control procedures lies with the CEO of each business entity. The directors complete a formal review of the effectiveness of the group's internal controls on a regular basis. A management representation letter is signed off by the relevant management confirming that the business entity has maintained a sound internal control environment, including operational and financial controls and risk management processes.

Internal audit

The function of internal audit is to appraise the adequacy and effectiveness of Denel's systems of internal control. This function has been outsourced to one of the big four audit firms. There is an internal audit charter in place that regulates the interaction between the group, management, internal auditors and the board.

The internal auditors report administratively to the GCEO and have unrestricted access to the chairman of the group audit and risk committee as well as to the chairman of the board of directors. Given that the internal auditors have unrestricted access to board members and regularly report to the audit and risk committee, the board is confident that the internal auditors have discharged their duties fully and independently in terms of the internal audit charter.

Business entities

All Denel's subsidiaries are subject to Denel group policies, governance and financial control. They comply with the PFMA and Companies Act, and other applicable legislation, including that of foreign countries.

Each business entity is accountable to the GCEO through a performance agreement. This is further enhanced by the various forums that are held monthly, e.g. the CEO and CFO forum, where not only operational matters are discussed but also topics that are relevant to executive management and the leaders of the group.

Sustainability

The board recognises that Denel operates in the aerospace and defence industry and continues to play a central role in high-end technology and globalisation. Today, this means not only addressing questions of transportation and national security, but also sustainability. Despite the core nature of its operations, the technological advances behind new jet engines, lighter fuselages and alternative weapons are only a small part of the puzzle. From supply chain efficiency to green IT, Denel has an opportunity to increase not only the sustainability of its industry, but also the economic value that it creates. The technologies to completely eliminate emissions and wastes may not be available for some time, but Denel can and will work with its customers to take substantive actions toward sustainability and high performance today.

In recognising that sustainability efforts are no different than other business initiatives, Denel has aligned its strategy prioritising sustainability in terms of its ability to create measurable contributions to objectives such as growth, cost reduction and the management of the business. For further details on the company's strategic drivers and achievements refer to page 13 and the *sustainability report* on page 97.

Stakeholder engagement

Denel initiated a continuous programme of improving relations with its main stakeholders. Actions taken in this regard include reviewing a stakeholder engagement plan and establishing a communications forum. All business entities have been provided with a template in terms of reporting on stakeholder engagements, objectives and achievements. Some of the stakeholder engagements including the achievements, and challenges are provided in page 96.

The shareholder and shareholder's compact

In its shareholder's compact, Denel agrees to its key performance areas with the Shareholder's representative, the Minister of Public Enterprises, on an annual basis. The group's strategy is implemented and managed at a business entity level and progress against the contracted targets is continuously monitored by the board. This is reported to the Shareholder's representative on a quarterly basis.

The actual performance achieved by the group for the year, compared to the contracted targets, is provided in the table below:

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	Retained strategic capabilities in support of the DoD's requirements	No core capabilities were discontinued or established during the year. Therefore, 100% of the core capabilities required by DoD were retained. This KPI is always limited by DoD's finalisation of its strategy.	Maintain all or 100% of key strategic capabilities required of Denel by DoD.
	Maximise access to local markets	Local sales as a % of turnover	68%	60%
	Contracted SANDF/DoD programmes	Invoiced sales as a % of SANDF/DoD orders placed (roll-over of funds)	91%	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)	20%	10%
	Investment in R&D	Self-funded R&D as a % of turnover	4%	1%
Business sustainability	Profitability management	EBIT as a % of turnover	8%	(6%)
	Debt and gearing	Debt/equity ratio	3:1	1:1 long term
	Cash management	Cash flow from operations as a % of turnover	5%	(15%)
	Healthy sales pipeline	Orders concluded in respect of the coming year as a % of sales budget for that year (order cover)	66%	50%
Business efficiency	Productivity improvement	Turnover per employee	R690k	R740k
	Operating expenditure	Operating expenditure as a % of revenue	28%	25%
Developmental contribution	Contribution to economic transformation (including attainment of key supplier development)	B-BBEE contributor level	Level 3	Level 4

Stakeholders' engagements

Overview

Sound engagement with stakeholders is of paramount importance in building Denel's reputation as a respected business entity, focussed on the timely execution of contracts and development of new business opportunities. These engagements cover critical issues, including investment in new technology, manufacturing capabilities and products. Such engagements bring maximum value as discussions are open, frank and based on mutual trust. Our stakeholder engagement is with reference to the Denel values of professionalism, integrity, innovation, accountability and caring for our people, esteemed client base and the environment. Our engagements, among others, endeavour to secure optimal support from our Shareholder and our main customer the DoD. Equal energy is expended on securing wider support from key Government departments, regulatory bodies, clients and workforce. In support of these endeavours, the existing stakeholder engagement strategy and model was refined during the year. An inclusive approach is followed which ensures that none of our valued stakeholder and interest groups are excluded.

Denel is also aware of the importance of open and effective communication with and through public media representatives. Thus specific attention was given to the development and implementation of a proactive and constructive media liaison policy framework, with specific company representatives delegated to engage with media officials. This has resulted in Denel obtaining balanced reporting throughout the year, with positive reporting being the order of the day. Some of the group key activities were covered extensively during Denel's participation at the Africa Aerospace and Defence 2010 Exhibition held in Cape Town. Announcements were made during the year regarding new sales, the formal certification of the Rooivalk combat-support helicopter, participation in the manufacturing of major JAS 39 Gripen fighter aircraft sub-assemblies and the significant Airbus A400M structural components.

Some comments that appeared in the media by our stakeholders' and Denel's responses are summarised in the following table:

Stakeholders' comments	Denel's response
Denel emphatically denies it, or its subsidiaries, has sold armaments to Libya following a sales trip to that country. (Source: Mail & Guardian, 1 Apr 2011)	Denel did not sell any weapons to Libya. During 2008 Denel, however, participated in an exhibition in Libya which included aircraft maintenance, repairs overhaul and mine action services. During 2010, Denel also sent representatives of the company to visit Libya to explore opportunities for the marketing of defence products. All Denel's activities regarding marketing and sales of defence equipment take place within the framework of decisions taken by international organs such as the UN, the policies of the South African government and the regulatory prescripts imposed by the National Conventional Arms Control Committee and the Directorate Conventional Arms Control.
BAE Systems Plc's South African unit lobbies the SA government to choose its RG41 armoured combat vehicles over Finnish Patria Oyj. DLS, a Denel entity, is a prime contractor for the Hoefyster project. (Source: Bloomberg, 4 Mar 2011)	DLS was awarded the contract to develop and manufacture the Badger – a new generation ICV, in line with the DoD requirements and specifications. Denel was awarded this contract by Armscor during May 2007 in an open, transparent, tender process and has been working on the Badger under contract for close to four years. More than 70% of the Badger will be produced in South Africa in a process which will create more than 2 000 jobs at DLS and about 100 sub-contractors, invest substantial resources in the training of scarce skills and, reinforce high-tech manufacturing capacity and local defence technology.
Restructuring at Denel Saab Aerostructures – 161 employees affected. (Source: Business Day, 25 Oct 2010)	DSA, embarked on a turnaround plan to reduce costs and reach breakeven within five years. The restructuring involved a renewed focus on core business activities, a reduction in its current workforce and a sharing of services with Denel Aviation, another business entity within the Denel group.
A trade union warns of Denel retrenchments if Aerosud deal goes ahead. (Source: IOL, 23 Mar 2011)	Denel has been endeavouring to turn around DSA, focused on lean manufacturing principles and continuous improvement against international benchmarks. This plan is to ensure cost effective, quality and on-time delivery to customers. Denel received a conditional proposal from the Aerosud group relating to DSA, which is being evaluated as part of the restructuring of the company. It is too early make announcements on the details of the transaction as there are conditions precedents that has not yet been fulfilled.
Denel Aviation, hands over the Rooivalk, support combat helicopter to SAAF. (Source: Engineering News, 1 Apr 2011)	A Denel business entity, Denel Aviation handed over the upgraded Rooivalk combat support helicopter to the SAAF for operational duties. The Rooivalk, designed and manufactured in South Africa, was received by the Chief of the SAAF. The handover was a culmination of 25 years of research, development and high-technology manufacturing. Denel Aviation was responsible for the final modifications to the helicopter to improve its safety and reliability and accuracy of its weapons systems and to complete all outstanding certification flight testing to enable application for a full military type certificate at the Cabinet-agreed deployment baseline.

The main stakeholder interactions during the year were with our Shareholder the DPE and NT, our local client the DoD and Armscor, our international clients, employees and the members of the public.

Stakeholders	Material Issue	Outcome
Shareholders and other related government departments including: • DPE • DoD • NT • DTI • DST • DIRCO • NCACC • Economic development parliamentary portfolio and select committees	• Financial performance • Debt and funding • Key performance areas • Group strategy • DSA losses, challenges and alternatives to be explored • Denel contribution to NGP • Government support for export opportunities and industry participation • Denel future state and alignment • Turnaround interventions • Business on new policies i.e. NGP and IPAP2	• Government guarantee rolled over to support loans • Shareholder's Compact with KPIs • Corporate plan for five years • Co-operation between Denel and state departments • Denel more aware and focussed on skills development • Organisational restructuring • Support for DSA pursuing various scenario's • Continue with the execution of the Rooivalk and GBADS programmes • Developed an RSA incorporated industrial approach to offset/ industrial participation opportunities • The Shareholder is driving the finalisation of the Denel 'future state' and ensured stakeholder alignment on the macro-strategy • Obtain marketing and export permits
Clients including: • DoD • Armscor • SAPS • International clients • Local commercial clients	• Custodian of core strategic and sovereign capabilities • Value for service delivery • Co-operation agreements • Performance and programme delivery • Contracting and contracting models • DoD budget constraints and requirements • Promote product ranges and demonstrate capabilities including participating in the following national and international exhibitions: o Eurosatory, France – Jun 2010 o DSA, Malaysia – Apr 2010 o AAD, South Africa – Sept 2010 o Indodefence, Indonesia – Nov 2010 o IDEX, United Arab Emirates – Feb 2011 • Support for the release of key orders	• R789m R&D spend • Achieved 90% of contracted milestones for the year • Agreement on conclusion of Drummer II and GBADS I programme slippages. Relevant CVO's not agreed yet • Secured MRO support for Rooivalk • Alignment in certain strategic planning focus areas • Integrating capabilities to improve efficiencies, i.e. C130 support at air force base • Key milestones achieved on A-Darter, Hoefyster and Rooivalk • Customers informed of technological developments and solutions offered by Denel
Employees	• Sharing of general information of key business developments through internal newsletters, GCEO road shows, strategic leadership and communication forums • Business focus and strategy updates • Business performance updates • Maintained the group restructuring and transformation committee • Performance management and recognition, including transformation, health and safety; and procurement from previously disadvantaged groups	• Informed employees • Improved organisational climate • Engagement and timeous conclusion of salary negotiations
Other, including: • General public and communities • SMMEs and B-BBEE • Media • Environmental groups and communities	• Unemployment, poverty alleviation and upliftment of the quality of life of communities • Development of SMMEs and B-BBEE • Proactive and constructive media liaison • Establish relationships and promote understanding of Denel's contribution towards sound environmental practice • Skills shortage	• Obtained balanced media reporting throughout the year • Investment in communities • Improvement in environmental performance • Involvement in SED across the group

Strategy overview

Denel launched its turnaround strategy in 2006, in response to the state of the economy, the continued losses posted by the group and the shrinking defence budget. The strategy focuses on improving business entity performance and accountability, including decentralisation, restructuring, strategic alliances and partnerships. Denel's strategic objectives have been refined to meet the challenge of becoming a financially self-sustainable organisation, whilst simultaneously contributing to the goal of being a responsible corporate citizen. The following key strategic drivers were identified:

- Improve access to sustainable markets
- Achieve operational excellence
- Deepen relationships with the defence community and state agencies
- Strengthen governance and financial management
- Towards a respected South African company

Integrating these initiatives into the long-term strategy of the company is an ongoing exercise. KPIs are maintained across the group thereby assuring continues performance.

Improve access to sustainable markets

New market realities require innovation, risk taking and bold moves to continually improve revenues and profitability. Critical areas of growth are in both emerging markets and product segments including cyber security, intelligence, surveillance, recognisance, defence electronics, precision targeting and response, remotely controlled platforms, directed energy, data fusion and security.

Market conditions are extremely challenging with fierce competition driven by the following factors:

- The OEMs are aggressively targeting developing markets, as major defence companies are experiencing similar pressures in their markets and are beginning to pursue smaller contracts that were previously considered unattractive. Developing countries enter into alliances and strategic partnerships with OEMs in order to integrate with global supply chains and grow their domestic industries. This gives rise to increased investments, access to and the provision of innovative products and new technologies.
- Political unrest in the Middle East and North Africa is likely to affect military procurement decisions and will have a negative impact on Denel. These markets will be difficult to replace or regain if exports to these countries are suspended.

The impact of these factors can be seen as revenue declined by R358m to R3 252m (2010: R3 610m). A main contributor was the decrease in export sales to R1 045m (2010: R1 401m) caused by delays in major contracts. The following are among the strategies that have been put in place:

- Increasing marketing efforts with a view to consolidating traditional markets, while accessing sustainable emerging markets. Results are already evident with opportunities in South America, Middle East and the Far East. International opportunities require close co-operation with government departments, namely DIRCO, DPE, DoD, NT, in supporting Denel's efforts.
- Concluding multi-year contracts to secure sovereign and strategic capabilities e.g. GBADS II and Hoefyster.
- Denel continues to play a dominant role in the local defence industry and positions itself for homeland protection through UAVS, Mechem's services and the development of new technologies. It will leverage landward technology with the local industry to meet the requirements of clients and securing of major local contracts.

Denel has to date identified opportunities in excess of R40bn. Subsequent to year-end opportunities with a value of approximately R5bn has been converted to orders.

Achieve operational excellence

Denel is committed to achieving operational excellence in all areas through improved technical performance, people and skills development, effective outsourcing and supplier development, as well as sound programme management and contracting. Unfortunately delays in the conclusion of major contracts resulted in the under-utilisation of resources, including reduced human capital development and transformation, ageing of plants, as well as failure to recover fixed costs. Denel is a custodian of defence technologies and core competencies which are of strategic value. The following initiatives have been undertaken:

- Effective resource allocation, improving working capital management, cash flow management as well as the disposal and closure of non-core businesses.
- Implementation of a group-wide cost optimisation project, through various restructuring and procurement initiatives, focussing on integrating shared services and aggressive cost cutting interventions.
- Improved contracting, especially for development orientated programmes, risk management and the completion of legacy contracts.
- Restructuring to minimise the financial losses posted by DSA including retrenchments, space optimisation and other cost reduction initiatives and to create revenue opportunities.

The above strategies have resulted in improved operational excellence as follows:

- Achieving delivery milestones, 90% in the current year against a target of 85%, minimising the roll-over of funds by the DoD.
- Improving working capital e.g. inventory-holding of R570m (2010: R738m).
- Cost savings in excess of R140m for the year.

Deepen relationships with defence community and state agencies

Global research indicates that local market support is a critical success factor for defence companies. Denel has a solid local market, but growth prospects in the market are limited by the level of defence spend. There are indications that the DoD will spend on key strategic areas, namely the renewal of landward capabilities and border protection. Denel is leveraging relationships and positioning itself to participate in these programmes.

In the light of the level of local defence spend limitations, it is vitally important to earn sizable export revenue. Government support and leveraging of bilateral country-to-country agreements is key to ensuring the group's marketing success. This requires a multifaceted approach and close co-operation between Denel and departments such as the DoD, IDC, DTI and DST.

The group strives to communicate with all its stakeholders, developing an understanding of their needs and a positive rapport. This is accomplished through frequent interaction, exhibitions, expanding of marketing presence thus establishing the Denel brand. Major improvements have been made in improving relationships with the DoD and Armscor, including good progress in discussions and the drafting of the SAAF/Denel co-operation agreement.

Strengthen governance and financial management

Denel recognises the vital role that governance plays in economic and social development, notably the four elements of good governance, namely accountability, transparency, participation, and predictability. The business entity boards and audit and risk committees ensure financial discipline across the group by setting KPIs and measuring performance against these targets. During the year, the group performed a gap analysis on the latest King Report and integrated these practices into its operations. For more detail on corporate governance, refer to the *corporate governance* report on page 85.

Denel promotes an entrepreneurial and performance-driven culture. Cost reduction and optimising productivity are key KPIs identified in measuring the performance of each business entity. These actions resulted in improved individual business results despite difficult and numerous challenges. For more detail, refer to *business entity profiles* on pages 42 to 53.

A significant risk is posed by the group's low equity position as it experiences the pressure regarding funds to service or repay its short-term debt, meeting working capital and operating expenses. Denel continues to engage with its Shareholder regarding recapitalisation as this will improve the group's solvency and remove the interest charge. Having sufficient funding will also improve client confidence and our general image.

Towards a respected South African company

Denel aspires to be a respected South African company and to achieve this the group's activities contribute to the SED of its stakeholders, linking together a community's economy, environment and society. In addition, Denel adheres to government regulations to prevent the proliferation of defence material and ensure adequate arms control. The group has incorporated the following initiatives:

- A value model that ensures honest and open communication with our stakeholders.
- Retaining and investing in scarce skills with a major emphasis on bursaries, internship and youth training programmes specifically focussed on previously disadvantaged communities.
- The achievement of transformation goals (improving its B-BBEEE rating) has become a key part of the management incentive programme. Refer to *human resources* on page 82.
- Investing in R&D capability.
- Implementing a fraud prevention plan. This incorporates rolling out of a Code of Ethics and ensuring fraud awareness.
- Focusing on leadership development programmes.

Denel acknowledges its responsibility and this is addressed throughout this annual report. Denel is an ethical defence company and operates responsibly in accordance with applicable legislation, and strives to build a dynamic South African defence industrial cluster and associated technology base. These attitudes are incorporated in company values of integrity, accountability, innovation, operational excellence and caring. They are made a reality through the implementation of Denel's turnaround strategy and are embedded in the way it constitutes its business.

Occupational health and safety

Overview

Ensuring the health and safety of employees in the workplace is a requirement supporting Denel's objectives, and the value of caring. Denel business entities implemented formal occupational health and safety processes which include risk assessments, pre-employment, exit and periodic medical examinations. This includes raising awareness, through training and communication, regarding health and safety. Occupational health, safety and environmental committees are in place and responsible persons appointed to ensure that legal requirements are met.

The objective of the health and safety system is to ensure a safe working environment and compliance with the legal and regulatory requirements.

Material interventions relating to occupational health are:

- Occupational health and safety system's performance.
- Medical examinations.
- Occupational hygiene surveys and risk assessments.
- Occupational health and safety training and awareness.

Occupational health and safety system and performance

Business entities measure their safety management performance in terms of Lost Time Injury Frequency Rate (LTIFR). The LTIFR of less than 1 is the target for Denel business entities. The performance of the individual business entities against this target is summarised in the following table:

Safety systems and performance

Business entities	Management System	Target: LTIFR		
		Actual 2011	Target 2011	Actual 2010
Denel Aviation	Aligned to OHSAS 18001 system, certification during 2011	0.88	<1	0.83
DLS	Based on legal and regulatory requirements	0.92	<1	-
DSA	Based on legal and regulatory requirements	0.77	<1	0.65
Dynamics Missiles and UAVS	Aligned to OHSAS 18001	-	<1	0.14
Mechem	Based on legal requirements	-	<1	-
OTR	Aligned to OHSAS 18001	0.7	<1	4.9
PMP	OHSAS 18001 certified	0.48	<1	0.48
Deniprop	Based on legal requirements	0.92	<1	0.64

Despite the hazardous nature of some of the business entities' activities, it is encouraging to note that all business entities' LTIFR were below one and no fatalities were reported during the year. This can be attributed to safety awareness through continuous training and induction of employees in various aspects of safety during the year.

Medical examinations

Denel's business entities conduct pre-employment, exit and medical examinations to assess the health of employees, especially those involved in high-risk occupations. These various procedures undertaken during the year are tabulated below:

	Number of employees examined							
	Mechem	Denel Aviation	DLS	PMP	OTR	Dynamics Missiles and UAVS	DSA	Deniprop
Pre-employment and exit medical examinations	25	140	57	347	-	164	325	7
Periodic medical examinations	26	1 098	329	724	8	104	754	65
Biological monitoring	26	33	55	89	7	1	74	-
Audiometric (hearing) tests	-	46	390	1 071	-	-	163	-

Occupational hygiene surveys and risk assessments

Occupational hygiene surveys were conducted at the following business entities and the most significant are reported below:

- ***Denel Aviation***
  Occupational hygiene surveys were conducted by an approved inspection authority at the Denel Aviation facilities to measure illumination, noise, ventilation, HCS and ergonomics. The survey results showed these facilities comply with legal requirements.

- ***DLS***
  Surveys were conducted on illumination, noise, hazardous chemical substances, total inhalable dust, metal fumes, alpha quarts, volatile organic compounds, ventilation and heat stress. The reports revealed that this business entity complies with the legal requirements.

- ***DSA***
  An asbestos survey and baseline risk assessment were conducted by an approved inspection authorities. The overall asbestos exposure risk rating was minimal and asbestos containing material at pertinent areas has been removed.

  Adequate controls are in place for chemical processes. In addition, air quality and illumination surveys were conducted.

- ***Dynamics Missiles and UAVS***
  Surveys conducted by an approved inspection authority during the year revealed that emission levels in the workshops were within legal limits. The levels were reduced after the installation of additional filters in the facility.

- ***OTR***
  An air quality survey was conducted by an approved inspection authority, on all buildings. The survey revealed that all significant aspects of air quality in the buildings were within the required limits and there were no significant shortcomings identified. Hoisting and lifting equipment was inspected and re-certified in line with relevant requirements.

- ***PMP***
  Lead exposure, noise, oil mist, illumination and dust particles surveys were conducted and it was found that they comply with legal requirements.

- ***Deniprop***
  A carbon monoxide survey was conducted by an approved inspection authority in the fire department at Denel Properties' Kempton Park campus to determine levels of carbon monoxide emitted when vehicles are started within the facility. No significant deviations were found.

Occupational Health and Safety Training and Awareness

Apart from routine health and safety induction, job-related safety training is provided to promote safety awareness among employees. This has contributed positively to the good safety performance of the business entities during the year. Details of training provided during the year are tabulated below.

Training statistics

	Number of employees trained per business entity							
Type of training offered	Mechem	Denel Aviation	DLS	PMP	OTR	Dynamics Missiles and UAVS	DSA	Deniprop
Health and safety induction	34	-	30	43	2	68	99	41
Hazardous chemical substances	5	13	43	226	3	34	6	-
Material safety data sheets	5	-	12	226	-	34	6	52
Spill kit	4	-	36	70	1	-	-	7
Scaffolding	-	-	7	20	-	-	-	1
Safety representatives	3	6	24	10	12	9	-	1
Hazard identification and risk assessments	5	-	-	47	-	9	1	-
Explosives areas	-	-	-	474	1	17	-	-
Legal training for supervisors	1		-	-	-	82	16	1
First aiders	1	21		56	14	24	8	3
Fire fighters	3	-	15	150	106	28	98	44
Emergency team members	5	-	30	150	7	6	-	1
Incident investigators	3	-	30	5	-	-	-	15
Crane and forklift operators	6	112	35	113	15	15	-	4
Lead training	-		-	56	-	-	-	-
Noise induced hearing loss	1	145	35	338	-	8	-	7
Vessels under pressure		-	-	-	-	-	-	2

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 in achieving ecological viability. During the period under review, the group focused on this imperative to ensure that environmental sustainability remains a priority in our quest to achieve the strategic goals and vision of the group.

Denel believes this focus will assist our leaders and stakeholders to make informed decisions, coupled with heightened emphasis on sustainability. The aim is that the users of this report are able to understand the full continuum of these sustainability issues, including increases and decreases, but moreover the reasons, information and facts that will enable them to readily assess the full impact and meaning behind the numbers.

The internal environmental policy establishes an overall sense of direction and sets the principles of action for the group. It also provides an overarching goal with regards to the level of environmental responsibility and performance of the company, against which all subsequent actions will be judged. Furthermore, it communicates clear and meaningful intentions, and views on environmental management in order to meet operational needs, as well as environmental legislative obligations.

The business entities strive to conduct environmental management activities in such a way that it reconciles with the requirements of the environment and the mission of group. The mission is to create economic value by transforming its technological capabilities into superior quality products and related services for global markets. Environmental considerations are incorporated in the overall safety, health and environmental policy.

The strategy of the group includes environmental aspects of sustainability (details of the strategy are provided in the *group overview* section, the *chairman's statement* and *group chief executive officer's* report and the *directors' report* on pages 8, 26, 32, 125 respectively. Denel strives to be a responsible corporate citizen committed to responsible environmental practices. The group is still in the early stages of sustainability development issues and reporting, and acknowledges that there are further opportunities for improvement. These are currently being explored throughout the group.

As a responsible corporate citizen, Denel fully commits itself to an environmental policy that is consistent with national and international policies and other requirements, and which complies with promulgated environmental legislation and protocols, to ensure that its business operations meet or surpass minimum standards. Due to the uniqueness of their operations, each business entity has specific goals, objectives and targets to underpin responsible business operations and improve environmental compliance. Focus areas are technological requirements, financial, operational and business requirements and views obtained from interested parties. The responsibility for setting and achieving objectives, goals and targets rests at operational executive level. 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:

- Protection of species and habitats and the conservation of biodiversity and natural resources.
- Protection of the environment against disturbance, deterioration, poisoning or destruction as a result of human activity and structures.
- Maintenance and improvement of environments which contribute to the quality of life of South African citizens.
- Provision of a healthy working environment for its personnel.

Each business entity bears the responsibility for sound environmental management of their dominion. Committees and managers are appointed at business 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 typically 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 100.

Materiality is not only determined by the quantitative and qualitative facet, but also by the nature of the environmental issue.

Ongoing challenges include ensuring that employees are aware of the necessity to preserve our environment, reduce waste and optimise resource usage. KPIs are recorded on a monthly basis; once sufficient historical information is captured, targets will be set. The successful achievement of these initiatives is presently being captured in business entity objectives and targets. These will be included in appropriate KPIs to be contained in executive management contracts to ensure ongoing monitoring and control towards improving performance against plan.

Managing material environmental impacts

Identified material focus areas:

1. Environmental policies and management systems
2. Employee training and awareness
3. Waste practices and recycling
4. Energy and water usage
5. Environmental impacts of products and services
6. Land stewardship and nature conservation (including significant spills)
7. Compliance with laws and legislation
8. Environmental protection and expenditures
9. Fuel utilisation and size of fleet
10. Other significant environmental activities

1. 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. Based on the principles of ISO 14001, it provides guidelines which outline the minimum requirements for each business entity to base its own management standards, systems and procedures, and is 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 of pollution and ensure care for the environment at business entity level.

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 ISO 14001 system requirements. Environmental impacts are assessed and monitored throughout the development and service delivery process, through business entities' environmental risk and impact assessments.

Departmental managers and environmental officers ensure that monitoring and controls are in place. They conduct and execute internal audits to assess compliance, identify shortcomings and implement remedial action on an ongoing basis. All incidents and potential incidents of non-compliance are logged, investigated and evaluated. The results of monitoring procedures and audits are recorded, and our internal risk assessments lead to effective corrective action taken where deviations have occurred. Reporting procedures are described in the management structures, roles and responsiblities section on page 64.

Occupational hygiene surveys, hazard identification risk assessment, fire risk assessment, SHE compliance audit, ergonomic surveys, environmental aspects and impacts identification were conducted and action plans established. Frequent monitoring of the implementation of these action plans takes place through progress meetings at respective business entities.

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. Environmental performance dictates that a continual improvement process is in place to plan, implement and monitor SHE sustainability across the group, through set objectives and targets, a SHEQ policy statement and an environmental policy.

Environmental management systems information in place at Denel's core businesses includes:

Core businesses	EMS (ISO 14001 certified)	Most recent external audit conducted	Planned re-certified	Comments
PMP	ISO 14001 certified (2003)	May 2010	Nov 2011	No major findings
OTR	ISO 14001 certified (Oct 2000) EMS Legal	May 2010 Surveillance system audit Oct 2010 Legal audit	Sept 2012	No major findings No major findings
Dynamics Missiles and UAVS	ISO 14001 certified (Feb 2009)	Surveillance audit Nov 2010	Dec 2012	No major findings
Denel Aviation	EMS is aligned to ISO 14001 requirements	Dec 2009	N/a	ISO 14001 certification planned for 2011
DLS	Implementing ISO 14001; OHSAS 18001: 2007 certification, May 2010	Audit will be conducted in May 2010	May 2011	The ISO 14001: 2004 pre-certification audit was successfully conducted in Nov 2009
Mechem	ISO 14001 certified (Nov 2010)	Dekra Nov 2010	Aug – Nov 2011	Planned audit Sept 2011. A proud and unusual accomplishment in achieving all 3 standards in one go (ISO 9000, 14000 and 18000)
DSA [1]	Implementing ISO 14001	N/a	N/a	In process
RDM	ISO 14001 certified at the following sites: Boskop (2008), Boksburg (2009), Somerset West(2010) and Wellington(2010)	DEKRA (Feb and Apr 2011) SABS (Oct 2010)	2011,2012,2013(respectively per site)	No non-conformances

[1] *Implementation of environmental management system commenced during 2008, but was put on hold due to financial constraints and a lack of resources.*

2. Employee training and awareness

Business entities have implemented specific environmental orientation, training and environmental awareness programmes. These 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.

Training and awareness programmes offered to employees:

Some core businesses	Training and awareness programmes
OTR	• Environmental induction for all new employees • Environmental awareness for contractors and clients • Water sewerage works operating course, which is a legal requirement for the operators • Snake handling course, as snakes are abundant at OTR • First aid training as part of the SHE requirements • Regular sensitising on safety matters – newsletter, talks, posters • Fire fighting training provided to personnel
PMP	• All employees attended an environmental management awareness course • All key personnel completed training on system audits including legal compliance and incident investigation • Safety, health and environmental management awareness actions training - accredited training in all aspects of ISO 14001 and OHSAS 18001 are presented to personnel and contractors • Safety talks - Regular safety talks take place in departments as well as through displaying of safety posters etc • 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 Aviation	• Environmental awareness training has been presented to approximately 515 employees over the period of review on various topics e.g. Denel Aviation and the Environment, Save the Environment, My Influence on the Environment, Hazard Awareness – "The little things that count", spill containment – how to handle it, noise induced hearing loss (NIHL) (145 employees), hazardous chemical substances, waste management: recycle, etc • Environmental responsibilities were covered in various SHE awareness training courses e.g. first aid level 1 and 2 (20 employees) and level 3 (1 employee)
DLS	• Training has been provided to all hazardous chemical handlers
Deniprop	• 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
Mechem	• SHE awareness training
DSA	• Personnel are trained on environmental protection practices incorporated in our SHE policy • Chemical/ oil handling, storage, disposal, housekeeping, lean manufacturing, training is provided
RDM	• Various training provided to personnel in terms of SHE, fire fighting, dangerous goods, risk assessment, safe use of herbicides and environmental awareness

3. Waste practices and recycling

Waste management is a key focus area for Denel. The details of formal waste management plans forms part of the Environmental Management Policy and the Environmental Management System, which is a requirement for the ISO 14001 EMS, where relevant.

The '3 Rs' (reduce, re-use and recycle) are well entrenched as the pillars of waste management within the group. 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. Specific waste management initiatives are being executed to prevent any contamination of the environment and minimise industrial waste generation.

Denel has implemented autonomous initiatives for hazardous and general waste recycling. These include:

- 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.
- PMP is in possession of a waste permit authorising it to recycle its solid waste, e.g. brass strips, cutting oil and persolve. Approximately 50% of PMP's input materials are recycled materials which are re-used in the business entity's production process, opportunities exist to improve on this percentage. A series of catchment dams have been constructed, to ensure that in the unlikely event of effluent spillage, waste water will not contaminate the natural water run-off. As part of operating procedure, all hazardous substances are contained in environmentally-safe storage and handling facilities which are reviewed on a regular basis.

- OTR has a detailed waste and pollution management plan, which also forms part of and is a requirement for the ISO 14001 EMS. Waste practices include collecting neon tubes for contracted disposal, while the general workshop executes internal manufacturing and refurbishing activities which not only limit material waste, but also significantly reduce capital expenditure requirements. Annual scrap auctions are held to clear the premises of unwanted materials and equipment.
- DSA recycled 100% of its aluminium waste. The service of a waste specialist is used to dispose of all hazardous waste in accordance with the Environmental Act. Domestic and oil waste is handled by the landlord (Denel Properties) as per lease agreement.
- Mechem destroys landmines, UXOs and illegal ordnance by using a powder which burns a hole in the casing and sets the explosives alight. An incinerator is also used for mass destruction of small calibre ammunition up to 14.5mm ball. Mine-protected vehicles are returned to South Africa to be refurbished, re-used and deployed on other or new contracts. The same principle is followed with other equipment. Where equipment is redundant, it is sold or scrapped, according to legislation and specific country regulations and by-laws, to local recycling companies.
- DLS waste practices include the safe and controlled removal of cutting oils and fluids, sludge from sump, contaminated sawdust, metal shavings, cyanide effluent water, powder and drums and asbestos lagging.
- Denel Properties manages the collection and removal of all domestic and recyclable general waste for its tenants.
- Monitoring and analyses of effluent waste discharged into municipality sewers takes place at DSA and DLS before permits are granted, authorising its release into the storm water and sewer systems.

Details of the group's hazardous and general waste disposed and recycled are provided in the table below.

Type of waste	Weight		Disposal/recycling method and comments
	2011	2010	
Hazardous waste disposed (tons)	62	91	Disposed of at special landfills, where waste is treated in an environmentally friendly manner. Safe disposal certificates are received.
Hazardous waste disposed (kl)	1 450	947	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) Hazardous waste *recycled* (kl)	308 75	206 75	
Non-hazardous disposed (tons) Non-hazardous disposed (kl)	448 552	2 810	Disposed of at normal landfills by waste removal companies or own transport
Non-hazardous waste *recycled* (tons)	10 294	4 410	Includes paper, plastics, tins and metal shavings which are sold to recycling companies or dealers

4. 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, operational and environmental 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 major challenge for the majority of the group remains the continuous reduction of electricity consumption, while simultaneously growing revenue. Growth in revenue implies more electricity usage, directly impacting on consumption figures.

Various energy initiatives and programmes continued to be implemented throughout the group to reduce its overall demand. These have resulted in energy saving initiatives which include the following:

- General - group-wide campaigns are conducted to raise awareness and encourage the conservation and responsible use of water and energy consumption. Reduced printing is encouraged. Inspections are done on a monthly basis. Energy planning takes place for the use of ovens in off-peak periods. Scheduling equipment with high-energy usage for automatic switch-off during low-usage periods, and where possible, installing electricity-efficient equipment.
- Electricity - time load switching of building lights and isolated systems in vacant buildings, changing from Tariff C to D, Installation of KwH meters to charge tenants for actual usage. Tenants will be responsible for effecting strategies to save on usage and costs. Newsletters are distributed to educate tenants in all aspects of energy saving initiatives. Generators are on maintenance plan with regular tests to ensure effectiveness. Energy sources are switched off in vacant buildings and in areas where natural lighting provides sufficient illumination. Migration to LCD and flat screen computers, and the use of electronic media has become standard practice during presentations. Ongoing sensitisation of personnel on energy saving and awareness remains a priority for the group. Deniprop has introduced a new metering system for sites where electricity was previously charged by calculation on square meters used.
- Water - borehole water is used for gardens and backup fire protection systems. Leaks are repaired. PMP and DSA operate water treatment plants to ensure compliance with legal requirements before releasing effluent into the sewerage systems. PMP has water catchments; 75% of DSA water usage is recycled and 80% of waste water generated by its operations is treated and recycled through its water treatment plant. Deniprop is working to achieve buy-in from tenants to install new water-saving devices, anticipated to pay for themselves within 18 months.
- Geysers - installation of geyser blankets, reduction of temperatures and investigations to de-centralise the aging hot water generators and install smaller generators within the production processing environments are being investigated. This is expected to reduce costs and improve efficiencies.

Denel's energy usage takes place mainly through the consumption of electricity and fuel as provided below:

	Consumed – water Ml		Amount spent Rm		Consumed electricity MwH		Amount spent Rm	
Business entity/campus name	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Irene [1]	95	82	1	1	18	19	8	8
Kempton Park [2]	352	529	4	3	36	35	27	20
Lyttelton [3]	75	59	1	1	9	9	5	4
PMP [4]	365	360	3	3	28	40	17	22
Houwteq [5]	6	10	1	-	2	2	1	1
Mechem [6]	35	-	-	-	2	-	-	-
OTR [7]	88	89	-	-	6	6	3	3
RDM	1 225	954	4	3	35	29	19	13

[1] *Includes Denel Dynamics, DISS, Denel Properties, DCO and Carl Zeiss Optronics*
[2] *Includes Aviation, DSA, DTA, TMA, RDM*
[3] *Includes DLS, Mechem (for 2010)*
[4] *Includes PMP – note that PMP experienced a drop in product sales. The reduction in water usage can therefore not only be attributed to savings in water usage and the drop in electricity usage is due to lower sales*
[5] *Houwteq water is not supplied by the municipality. Raw water is drawn from an irrigation scheme*
[6] *Mechem was part of the Lyttelton campus for the prior years*
[7] *The water costs at OTR relate to permit fees and fuel costs, as the water is drawn from boreholes*

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

- Internal effluent controls, e.g. storm water system monitoring, on entry and exit to facility could be compromised by shared occupation with outside tenants.
- The ability to financially absorb the increases in electricity supply costs approved by the National Energy Regulator of South Africa on the Eskom tariffs of 26% for the next two years.
- 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.
- The maintenance and upkeep of containment reservoirs is costly.
- Determination of energy and water footprints is difficult, with limited resources due to financial pressures.
- DLS has experienced water tariff escalation of 15%, while electricity consumption decreased over the past 3 years. However, tariff increases have eroded all gains from energy savings/reductions.
- One of the major challenges that remain for OTR is the maintenance of the aged water supply system. Many of the pipelines, pumps, valves and other water supply infrastructure is coming to the end of their economic life and need to be replaced over the next five years. Higher consumption this year is a direct result of pipeline breakages and resultant water leaks. If these leaks occur during winter periods, they are more difficult to trace, resulting in increased wastage. A capital project to sequentially replace these systems has been identified on the OTR capital replacement plan.

5. Environmental impacts of products and services

Environmental impact assessments are being carried out on all significant products and services. Mitigation actions are being undertaken to limit environmental impacts on the contracts. The 'cradle-to-grave' responsibility principle is applied, with environmental liabilities addressed throughout the design, manufacture, packaging and transporting processes. The group EMP adopts an Integrated Environmental Management (IEM) approach, and environmental consideration is integrated into all stages of the development process.

Denel business entities have permits from local authorities for the storage and handling of hazardous substances. As part of their operating procedures, the business 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 monitored and reviewed on an ongoing basis.

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

- PMP – implementation of ISO 14001 management system. A percentage of materials used are recycled input materials.
- DSA – environmental risk survey conducted in 2007; financial pressures have delayed the implementation of report recommendations. As part of operating procedure, all hazardous substances are contained in environmentally-safe storage and handling facilities and reviewed yearly as part of the SHE programme.
- Mechem – includes formal and informal environmental impact studies and environmental risk assessments. An aspect and impact assessment conducted in 2010 was updated in February 2011. As part of operating procedure, all hazardous substances are contained in environmentally-safe storage and handling facilities. Operational controls are in place for the handling and storage of hazardous chemicals.

Examples of initiatives to mitigate environmental impacts of products and services:

Details of initiatives to mitigate environmental impacts	Extent of mitigation and indicator
Operational controls implemented in areas with high significant impacts e.g. water management plan, hazardous chemical, storage plan and spillage procedure	All plans in place
Fuel spill contamination bunkers	Containment of spilled fuel to prevent damaging environment
A percentage of materials used are recycled	Different percentages of recycling are achieved e.g. 70% of paper is recycled at Mechem
Upgrading of boilers at RDM	Lower levels of particulate matter (PM)

6. Land stewardship and nature conservation

In instances where Denel business entities are entrusted with sizeable tracts of land, specific environmental management plans have been developed to improve the quality of flora and fauna and control invasive plant species. These plans ensure that any impact of historic operations is mitigated responsibly, and where possible, unused land is returned for more efficient utilisation. Denel's attitude and responsibilities towards responsible land management, rehabilitation and remediation to ensure compliance with the relevant environmental legislation, is contained in a group decontamination policy.

Presently, there are sites 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. 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. Denel has a legal obligation for the clean-up of these sites, as legislation provides for recourse against previous land owners.

To demonstrate that Denel is a responsible citizen provisions have been raised for land restoration, as disclosed in note 24 of the *annual financial statements*, totalling R237m. These provisions 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 anticipated future use. A process has already commenced to rehabilitate some of our properties.

The details of plans and remediation work implemented at contaminated sites are provided below:

Description of site	Actions taken to rehabilitate, including collaborations with Government and stakeholders
Denel Properties	• Remediation of 504ha of land in Philippi (Western Cape). Current year R1m was spent due to contamination over a period of years caused by activities associated with manufacturing of explosives and munitions.
Mechem	• Veld management plans - training of contractors on the contracts regarding awareness and rehabilitation of environment • Game management plans – n/a on the premises of HQ, but did a HIRA for the contracts • Fire management plans - fire management policy in place and regular training is done. There is a fire management plan on the contracts. A HIRA is been done for field fires which include the hazards, risks, control and mitigation of field fires • Rehabilitation/remediation/decontamination/demolition plans - of the environment is in place on completion of a contract
Dynamics Missiles and UAVS	• Upgrading of fire alarm system, yearly evacuation exercises and formation of fire fighting teams
OTR	• As part of OTR's ISO 14001 EMS game, field, fire, waste, water and impact management plans, various programmes have been implemented. Progress is continuously monitored and mitigation actions implemented where required • Supplied the Nuwejaars Wetland Private Reserve with 20 Bontebok as part of the Agulhas Biodiversity Initiative • In the process of implementing a new alien invasive vegetation eradication strategy
PMP	• Game management is done in collaboration with the Gauteng Nature Conservation Department • Fire management and effective fire protection is done according to requirements and guidelines as set by fire brigade and disaster management plans • Field management - frequent action is taken to control and eradicate the growth of alien invader and other unwanted plant species • An independent site audit and contamination assessment confirmed that there is no requirement for decontamination in the context of the explosives act. A 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

As an international demining company, Mechem plays a role contributing to responsible land management through its demining and battle area clearance activities. Through these activities, the company assists in building infrastructure, enabling agriculture and ensuring the possibility for 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.

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

- Extensive game management plans are also in place at OTR, 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.
- OTR, 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.
- OTR has a 25km coastline which is ecologically pristine. Access to the coast is restricted and controlled by OTR security, and monitoring patrols are conducted in co-operation with CapeNature which is responsible for managing the marine reserve along the coastline.

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 spillages

Business entities have spillage procedures in place, as well as an emergency response contact list, posted on notice boards in each work area for all related SHE emergencies. Materiality is not only the quantity but also the nature of the spillage, specific to the individual business entity. Detection systems and controls measures are installed to prevent any accidental spillage and contamination.

7. Compliance with laws and legislation

Various actions have been taken to ensure continuous compliance is assessed on a regular basis, by performing e.g. environmental legal compliance audits, health and safety legal compliance and GAP audits. No fines have been levied and/or non-monetary sanctions imposed on Denel for non-compliance with environmental laws and regulations, in the current financial year. Comprehensive details of the group's compliance with legislation are provided in the *risk governance*, page 81.

Trees were planted during National Arbour Week

8. Environmental protection and expenditures

Other expenditures for the year are as follows:

Business entity	Amount spent R'000 2011	Amount spent R'000 2010	Environmental activities that funds were used for
Dynamics Missiles and UAVS	68	115	• ISO 14001 surveillance audits and legal compliance audits emission and hygiene testing, spray booth, composite facility and the transport grease trap
OTR	693	460	• Maintaining ISO 14001 certification and all its associated costs to maintain all environmental management systems, (these costs exclude all labour costs) • The installation of a security and game perimeter fence that were not budgeted for but became a serious risk • An alien vegetation management programme
PMP	399	568	• Audit costs, nature conservation, hygiene surveys and waste disposal
Denel Aviation[1]	140	130	• Fuel farm contract and spill bunkers • Hazardous waste removal
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	266	15	• ISO 14001 accreditation costs • Due to the nature of Mechem's business, being involved described in the *land stewardship and nature conservation* section on page 110 • SHEQ integrated system
DSA	305	500	• Hazardous waste disposal
RDM	5 690	2 522	• Various initiatives e.g. new environmentally-friendly OCBM manufacturing facility, rehabilitation of old acid tank farm site, new heating systems and old burning grounds rehabilitated, etc

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

9. Fuel utilisation and size of fleet

Business entity	Actual amount of fuel* utilised (kl) 2011	Actual amount of fuel* utilised (kl) 2010	Size of fleet (no. of vehicles) 2011	Size of fleet (no. of vehicles) 2010	Details and comments
Denel Aviation	102	125	55	65	Fleet decreased by trip optimisation
PMP	1 409	1 461	102	102	Optimisation and cost reduction drive
DPS	9	11	13	13	Fuel utilisation decreased due to cost reduction drive
DLS	22	25	16	125	Fleet decreased due to theft, scrapped
OTR	214	120	100	105	Increase due to unplanned Eskom faults, includes fuel utilised for generator and additional test operations
RDM	410	370	427	427	Fuel utilisation increased with increase in production and prices
Dynamics Missiles and UAVS	71	64	25	24	The fleet of vehicles are used for day-to-day assignments only and the vehicles are well maintained to ensure it its impact on the environment is limited to that which can be reasonably be expected. Fuel is also used for operational purposes such as flight tests

* *Fuel utilised includes both petrol and diesel.*

10. Other environmental activities

The group's involvement and engagements on environmental issues within the communities where it operates is provided in the *stakeholder engagement report* on page 94.

Climate change and air pollutants, as focus areas, have not been fully explored due to its specialised nature. Refer to *occupational hygenic surveys* and *risk assessment* page 101, for surveys initiated and which will be investigated in future.

Looking forward

Each business entity will not only comply with minimum standards, but will strive to consistently exceed those targets. In the respective sustainability initiatives, every business entity will also ensure that the 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. Denel will work to influence and encourage our partners to follow our environmental roadmap as Denel grows and strives to continuously improve.

GRI content index

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

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
Sustainability profile							
Strategy and analysis	1.1	Statement from the group chief executive officer and chairperson	√	√	√	Chairman's statement Group chief executive officer's statement	26 32
	1.2	Description of key impacts, risks and opportunities	√	√	√	Sustainability report - Risk governance - Economic impact - Business entities' profiles	 81 59 42
Organisa-tional profile	2.1	Name of organisation	√	√	√	Group overview - Ownership profile and nature of business	8
	2.2	Primary brands, products, and/or services	√	√	√	Group overview - Nature of business - Business entities' profiles	 8 42
	2.3	Operational structure of the organisation	√	√	√	Group overview - Organisational structure	12
	2.4	Location of organisation's headquarters	√	√	√	Information service - Directors' report - Contact information	 135 224
	2.5	Number of countries where the organisation operates	◊	◊	◊	Group overview - Ownership profile and nature of business - Economic impact - Business entities' profiles	 8 59 42
	2.6	Nature of ownership and legal form	√	√	√	Group overview - Ownership profile and nature of business	8
	2.7	Markets served	◊	◊	◊	Group overview - Ownership profile and nature of business - Economic impact - Business entities' profiles	 8 59 42
	2.8	Scale of reporting organisation	√	√	√	Group overview - Organisational structure - Business entities' profiles - Consolidated annual financial statements	 12 42 136
	2.9	Significant changes during the reporting period, regarding size, structure and ownership	√	√	√	Group chief executive officer's statement	32
	2.10	Awards received in the reporting period	√	√	◊	Key highlights	22

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
Report profile	3.1	Reporting period for information provided	√	√	√	Inside Cover Sustainability report - About this report	57
	3.2	Date of most recent previous report (if any)	√	√	√	Inside cover	
	3.3	Reporting cycle	√	√	√	Inside cover	
	3.4	Contact point for questions regarding the report or its contents	√	√	√	Information service - Contact information	224
Report scope and boundary	3.5	Process for defining report content	√	√	√	Sustainability report - Material issues	58
	3.6	Boundary of the report	√	√	√	Sustainability report - About this report	57
	3.7	Limitations on the scope or boundary of the report	√	√	√	Sustainability report - About this report	57
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	√	Sustainability report - About this report	57
	3.9	Data measurement techniques and the bases of calculations	√	√	√	Sustainability report - About this report	57
	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	57
	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	57
GRI content index	3.12	Table identifying the location of the standard disclosures in the report	√	√	√	GRI content index	114
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	◊	◊	◊	Sustainability report - About this report - Sustainability vision, strategy and commitments	57 56

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
Governance, commit-ments and engagement	4.1	Governance structure of the organisation	√	√	√	Sustainability report - Corporate governance report	 85
	4.2	Whether the chairperson of the highest governance body is also an executive officer	√	√	√	Sustainability report - Corporate governance report	 85
	4.3	The number of members of the highest governance body that are independent and/or non-executive members	√	√	√	Sustainability report - Corporate governance report	 85
	4.4	Shareholder and employee recommendations or direction to the highest governance body	√	◊	◊	Sustainability report - Corporate governance report - Stakeholder engagements	 85 94
	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	 134
	4.6	Processes and highest governance body to ensure conflicts of interest are avoided	√	√	◊	Sustainability report - Corporate governance report	 85
	4.7	Process for determining the qualifications and expertise of the members of the board	√	√	√	Sustainability report - Corporate governance report	 85
	4.8	Statements of mission or values, codes of conduct and principles	√	√	√	Group overview - Strategy, vision and values - Corporate governance report - Environment responsiblity	 13 85 103
	4.9	Procedures of the board for overseeing the organisation's identification and management of economic, environmental, and social performance	√	√	√	Sustainability report - Corporate governance report - Sustainability vision, strategy and commitments	 85 56
	4.10	Processes for evaluating the board's own performance	√	√	√	Sustainability report - Corporate governance report	 85
Commit-ments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	√	√	√	Sustainability report - Risk governance	 81
	4.12	Externally developed economic, environmental, and social charters and principles to which the organisation subscribes or endorses	√	√	√	Sustainability report - Supplier management - Human resources and transformation - Occupational health and safety - Socio-economic development - Environmental performance	 64 66 100 74 103
	4.13	Memberships in associations and/or national/international advocacy organisations	√	√	√	Sustainability report - Environmental policies and management systems - Risk governance - Occupational health and safety	 103 81 100
Stakeholder engagement	4.14	Lists of stakeholder groups engaged by the organisation	√	√	√	Stakeholder engagements report	94
	4.15	Basis for identification and selection of stakeholders with whom to engage	√	√	√	Stakeholder engagements report	94
	4.16	Approaches to stakeholder engagement	√	√	√	Stakeholder engagements report	94
	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	√	√	Stakeholder engagements report	94

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
Economic indicators							
Economic performance	EC1	Direct economic value generated and distributed	√	√	√	Sustainability report - Economic impact - Value added statement	 59 63
	EC3	Coverage of the organisation's defined benefit plan obligations	√	√	√	Note 33 to the annual financial statements	212
	EC4	Significant financial assistance received from the South African Government	√	√	√	Group CEO's report Sustainability report - Stakeholder engagements Directors' report	32 94 125
Market presence	EC6	Policy, practices, and proportion of spending on locally-based suppliers	√	√	√	Sustainability report - Supplier management - Transformation	 64 71
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	√	√	◊	Sustainability report - Empowering employees	 69
Indirect economic impacts	EC8	Development and impact of infrastructure investments and services for public benefit	√	√	√	Sustainability report - Socio-economic development	 74
	EC9	Significant indirect economic impacts	√	√	√	Sustainability report - Economic impacts - Socio-economic development	 59 74
Social indicators							
Employment	LA1	Total workforce by employment type, employment contract, and region	◊	◊	◊	Sustainability report - Empowering employees	 67
	LA2	Total number and rate of employee turnover by age group, gender and region	◊	◊	◊	Sustainability report - Empowering employees	 67
	LA3	Benefits provided to full-time employees that are not provided to part time or temporary employees	√	√	x	Sustainability report - Empowering employees	 68
Labour/ management relations	LA4	Percentage of employees covered by collective bargaining agreements	√	√	√	Sustainability report - Empowering employees	 68
	LA5	Minimum notice periods regarding operational changes	√	√	◊	Sustainability report - Empowering employees	 68
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	 100
	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 - Human resources and transformation - Occupational health and safety	 69 100
Training and education	LA10	Total training spend by employee category	◊	◊	√	Sustainability report - Developing skills - Employee training and awareness	 69 74
	LA11	Programmes for skills management and lifelong learning	√	◊	x	Sustainability report - Developing skills	 69
	LA12	Percentage of employees receiving regular performance and career development reviews	√	√	x	Sustainability report - Employees performances	 68

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
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	68
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	√	√	√	Sustainability report - Socio-economic development	74
Corruption	SO2	Percentage and total number of business units analysed for risks related to corruption	◊	◊	◊	Sustainability report - Risk governance	83
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	√	√	◊	Sustainability report - Risk governance	102
	SO4	Actions taken in response to incidents of corruption	√	◊	◊	Sustainability report - Risk governance	84
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	◊	◊	◊	Sustainability report - Risk governance	84
Anti-competitive behaviour	SO7	Total number of legal actions for anticompetitive behaviour, anti-trust or monopoly practices	n/a	x	x	Sustainability report - Risk governance - Environmental responsibility	81 111
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	√	x	Sustainability report - Risk governance - Environmental responsibility	81 111
Customer health and safety	PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement	◊	◊	√	Sustainability Report - Supplier management	64
	PR2	Number of incidents of non-compliance with regulations	◊	◊	x	Sustainability Report - Supplier management	64
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 - Supplier management - Risk governance	64 81
	PR5	Practices related to customer satisfaction	◊	◊	◊	Sustainability Report - Supplier management	64

Aspect	No.	GRI G3 indicator	2011 rating	2010 rating	2009 rating	Annual report reference	Page
			Environmental indicators				
Materials	EN2	Percentage of materials used that are recycled input materials	√	◊	x	Sustainability report - Environmental responsibility	107
Energy	EN3	Direct energy consumption	√	√	◊	Sustainability report - Environmental responsibility	108
	EN6	Initiatives to provide energy-efficient based products and services and reductions in energy requirements	√	◊	x	Sustainability report - Environmental responsibility	108
Water	EN8	Total water consumption	√	√	x	Sustainability report - Environmental responsibility	108
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	◊	◊	◊	Sustainability report - Environmental responsibility	110
	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas	◊	◊	◊	Sustainability report - Environmental responsibility	109
Emissions, effluents and waste	EN22	Total weight of waste by type and disposal method	√	√	√	Sustainability report - Environmental responsibility	107
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	√	√	◊	Sustainability report - Environmental responsibility	107
Compliance	EN28	Monetary value of significant fines and the number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	√	x	Sustainability report - Environmental responsibility	111
Overall	EN30	Total environmental protection expenditures, by type	√	√	x	Sustainability report - Environmental responsibility	112

Section six
Consolidated annual financial statements

Consolidated annual financial statements

06

Report of the group audit and risk committee

The group audit and risk committee reports that it has adopted appropriate formal terms of reference as its audit and risk 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 as 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 the Denel group and Denel (Pty) Ltd for the year ended 31 March 2011 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, as amended, and the Public Finance Management Act, as amended, as well as the International Financial Reporting Standards.

Furthermore, the group audit and risk committee concurs that the adoption of the going concern assumption in the preparation of the group annual financial statements is appropriate. At its meeting of 22 June 2011, the committee recommended the adoption of the group annual financial statements by the board of directors.

Martie Janse van Rensburg
Chairman of the group audit and risk committee

Independent Auditors' Report to the Minister of Public Enterprises

Report on the financial statements

We have audited the annual financial statements and group annual financial statements of Denel (Propriety) Limited, which comprise the *directors' report*, the statements of financial position as at 31 March 2011, 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 125 to 218.

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 2011, 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 matter

Without qualifying our opinion, we draw attention to the fact that, although the group earned a total comprehensive profit of R111m (2010: loss of R240m), there are conditions and other matters that are set forth in the *directors' report*, on pages 131 to 132, which indicate the existence of material uncertainties, which may cast significant doubt about the group's ability to continue as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we include below our findings on the annual performance report, as set out on page 93, and material non-compliance with laws and regulations applicable to the company.

Predetermined objectives

There were no material findings on the annual performance report concerning the presentation, usefulness and reliability of the information, as defined by the Auditor General of South Africa's R3 Reporting Guide, issued March 2011, read in conjunction with the National Treasury Framework for Managing Programme Performance Information, issued May 2007.

Compliance with laws and regulations

As part of our audit of the financial statements, we complied with the requirements of ISSAI 1250: *Consideration of Laws and Regulations in an Audit of Financial Statements*, which incorporates ISA 250: *Consideration of Laws and Regulations in an Audit of Financial Statements* and Practice Note 250 issued by International Organisation of Supreme Audit Institutions. In applying the above standards to our audit of the financial statements, there were no findings concerning material non-compliance with applicable laws and regulations regarding financial matters, financial management and other related matters that came to our attention.

Internal Control

In accordance with the Public Audit Act and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditors' opinion on the financial statements and/or findings on predetermined objectives and/or material non-compliance with laws and regulations.

Ernst & Young Inc.

Ernst and Young Inc.
Director – Louis Pieter van Breda
Registered Auditor
Chartered Accountant (SA)
Wanderers Office Park
52 Corlett Drive
Illovo
Johannesburg

27 June 2011

Directors' report

Statement of responsibility

The board of directors is pleased to present its report and the audited group annual financial statements for the year ended 31 March 2011.

The directors are responsible for the integrity and fair presentation of the annual financial statements of Denel (Pty) Ltd and its subsidiaries. The *annual financial statements* presented on pages 136 to 218 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 judgements and estimates made by management. The directors have supervised the preparation of information included in the annual report and are responsible for both its accuracy and consistency.

The directors are satisfied that at the time of approving the annual financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this conclusion, the directors considered the cash position at 31 March 2011, the cash requirements for at least twelve months from that date and the borrowings facilities available. The going concern is discussed in more detail in page 131 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 123.

During the year, 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 2011.

The *annual financial statements* for the year ended 31 March 2011, set out on pages 136 to 218, was approved by the board of directors on 27 June 2011 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 in this report are based on the results for the Denel group and in context the term 'group' refers to the company, its subsidiaries and associated companies. The nature of the group's business is described in the *ownership profile and nature of business* section on page 8 as well as in the *business entities' profiles* section on page 42 of this report.

Financial and operations review

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

	Defence, security and certification		DSA		Once-off items		Group	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Revenue	2 971	3 180	281	430			3 252	3 610
Cost of sales	(2 268)	(2 379)	(327)	(589)	(154)	(64)	(2 749)	(3 032)
Gross profit	703	801	(46)	(159)	(154)	(64)	503	578
Other income	43	85	37	21	463		543	106
Operating expenditure	(731)	(775)	(214)	(145)	48	74	(897)	(846)
Share in results of associated companies	115	79					115	79
Profit/(loss) before interest and tax (EBIT)	130	190	(223)	(283)	357	10	264	(83)
Net interest	(106)	(94)	(14)	(45)			(120)	(139)
Taxation expense	(33)	(24)					(33)	(24)
Net profit/(loss)	(9)	72	(237)	(328)	357	10	111	(246)

The group has posted a net profit of R111m for the year, or R348m when excluding DSA's net loss. This is a significant improvement when compared to the prior year's financial results. The financial performance for the year is attributable to:

- Revenue declining by R358m or 10% from the prior year, as a result of delays in concluding some of the major contracts. The decline relates mainly to export revenue.
- Gross margin declining from 16% in 2010 to 15% in 2011, as a result of decreasing revenue and provision for contract losses (mainly Drummer and GBADS).
- Other income increased by R437m to R543m, mainly as a result of R463m accounting gain emanating from the restructuring of a pension fund.
- Operating expenditure remaining fairly constant as in the prior year, with the exception of once-off restructuring costs. Considerable cost savings were achieved, as a result of a cost optimisation initiative.
- The share in results of associated companies improved by R36m or 46% as a result of improved profitability by these companies.
- Net interest saving of R19m or 14% due to better cash management and lower interest rates than in the prior year.

The financial results continue to be negatively impacted by DSA's losses. Although progress was made during the year in restructuring DSA and reducing the prior year loss of R328m to R237m, the group has not been able to find a solution that fully addresses the financial losses that are posted by DSA. Due to the significance of its losses, the group will continue to post financial losses until a turnaround for DSA is achieved.

It is pleasing that the remainder of Denel's business entities, when excluding the once-off items, interest and tax posted a profit of R130m (2010: R190m). This year's financial performance was adversely affected by the exchange rate and the decline in revenues. In evaluating this year's financial results, it should be noted that these results include significant once-off items as shown above. Had it not been for these items the group would have posted a net loss of R246m.

Net equity improved to R654m, after taking into account the net profit for the year and a share buy-back at DSA.

DSA

This business entity has continued to post significant losses. In the current year, the losses were R237m (2010: R328m). There are historic issues facing this business including legacy loss-making contracts. These are 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 325m has been invested in this subsidiary (loans of R536m and investments of R789m). The funding requirement of this business per annum is approximately R250m and its liabilities exceeded its assets by R409m at year-end. 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 going concern issues, Denel has signed a guarantee letter confirming support of the business until the insolvency situation is addressed. This business entity's financial position as referred to above has a negative impact on the group's going concern and funding requirements, which are detailed in the funding section of this report. In addition, Saab, a former 20% shareholder in DSA, has exercised a put option and as a result R66m representing the initial capital contribution to DSA, had to be repaid.

This business continues to be restructured and various options are being considered, including the disposal of this business to a local player in the defence industry. Although a heads of agreement for the sale of DSA has been signed, certain conditions remain unresolved. Management continue to improve manufacturing efficiencies through process optimisation and consolidation of its operations thereby reducing the floor space. Supply chain and quality management improvement initiatives and renegotiation of key contracts offer opportunities to further contain projected losses while targeted business opportunities are being pursued. The business has reduced 50% of its headcount and reduced rental space by 30%. To further contain costs, DSA shared services such as HR, MIS and buildings with Denel Aviation. Despite these endeavours financial losses are projected over the next five years, underpinning the fact that the funding requirement for DSA cannot be sustained by the Denel group.

Dynamics Missiles

This business entity achieved a marginal profit after posting losses for a number of years. This financial performance is an improvement on the prior year's financial loss of R51m (after impairment). These results are partly due to improved programme delivery and restructuring. Whilst there has been a financial performance improvement, the company continues to require adequate order cover to maintain strategic capabilities, business processes and human capital.

The business has contracts that are in development, which have certain project risks requiring engineering excellence, innovation and cost management. Parallel to these endeavours, discussions regarding the sovereign relevance of this business are continuing with the DoD as a primary client, aimed at ensuring an adequate order base load to at least secure moderate profits.

Interest expense on borrowings

The group is funded mainly by interest-bearing borrowings, which are backed by government guarantees. Also, refer to funding section of this report.

Significant contracts

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

Rooivalk

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 functional 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 in June 2010 and, on instruction of the DoD, Denel re-launched work on the programme.

A major milestone was achieved with the upgrade of five aircraft to the 1F baseline during the year, which were delivered to the SAAF during April 2011. The SAAF issued a full Military Type Certificate for the Rooivalk Mk1. It is anticipated that Denel will complete the upgrade and delivery of the six remaining Rooivalk aircraft to the 1F baseline by the end of the 2011/12 financial year. In addition, the development of a small number of contracted operational enhancements will be completed and introduced to the Rooivalk fleet as in-service modifications. Most notable of these enhancements is the provision of long range external fuel tanks to increase the self-deployment range of the aircraft.

The five year operational in-service phase commenced in April 2011 and the business entity is awaiting the allocation of multi-year order that will include engineering support to underpin continued airworthiness. Indications are, however, evident that the SAAF may extend the life of Rooivalk beyond five years, thus requiring a full revision of the current logistic support approach to ensure the retention of core deeper-level support and manufacturing capabilities. Although the 1F baseline is in accordance with the cabinet memo, it has been agreed to in principle and condensed into a contract proposal; the formal contract has not been signed. In addition, the party responsible for any latent defects that may arise has not been clarified.

The programme accounted for revenues of R8m during the year. A provision has been raised representing the costs required to complete the remaining aircraft and related certification work in accordance with the 1F baseline. As at 31 March 2011 the balance amounted to R116m and is confirmed as adequate to cover the projected costs to complete the agreed technical work packages.

Hoefyster

Denel was contracted by Armscor for the development and production of the new-generation infantry combat vehicle programme called Project Hoefyster, to the value of R8.3bn. To ensure control over technical progress, only the development phase to the value of approximately R1bn was activated on signing the contract. The contract, however, provides for release of the production order on attainment of the Product Base Line (A) for the Section Variant of the integrated vehicle system. This milestone was successfully presented to the client on 10 September 2010 with a contractual obligation of releasing the production order within a few months. During March 2011, the client requested a six month delay to finalise the order. Denel is accommodating the delay, whilst it has notified the client that there may be cost implications as the cost base is influenced by imported components.

During the financial year, the programme accounted for revenues of R227m. The residual development work mainly requires finalisation and equipment integration into the five Engineering Development Models for evaluation and associated system qualification. Denel is confident that contracted milestones will be met and the programme successfully executed. These activities will be influenced by an export contract that will be executed parallel to the local project requiring significant expansion of short-term engineering capabilities as well as the earlier initiation of manufacturing processes.

Project Hoefyster activities have a local content in excess of 70% leading to the creation of an estimated 2 000 jobs. Local sub-contractors, already exceeding 100 business entities in both the local defence industry base and manufacturing sector will be supported. There will be substantial investments made in the training of scarce skills, enhancement of high-tech manufacturing capacity and targeted development of local landward defence technologies.

The contract is significant in terms of capacity utilisation and the retention of the design, development and manufacturing capability within the group. Owing to the nature and the size of the project, failure to secure the production phase of this project may negatively impact the ability to keep the total system capability in part or in full within the group. In addition, this could place a significant export order at risk as it has recently been placed on the basis that the local client will order the system.

A400M

Denel has been subcontracted by Airbus Military to produce work packages over a period of at least 15 years for the A400M strategic heavy lift transport aircraft from initial design to production of at least 180 aircraft currently on order. These are the Tops Shells, key components for the centre fuselage section and the Wing-to-Fuselage-Fairing (WFF) that aerodynamically integrates the wing to the fuselage sections. The allocated work comprises design to build packages requiring engineering skills supported by strong manufacturing competencies and supply chain efficiencies to manufacture and support these products through their product life cycle. The enforced delay of some 4 years in scheduled deliveries to Airbus Military has impacted directly on expected cash flow. Continued technical changes enforced on DSA to meet growing dynamic loads on especially the WFF, has required significant additional R&D and non-recurring costs, thus posing continued commercial risk to Denel as a whole.

The Airbus A400M is a 20 billion-euro program assigned to Airbus Military, a division of EADS, for the development of a new military transport aircraft for certain European countries. Due to continued technical challenges at European level, the programme has incurred major cost overruns and delays in excess of four years which have resulted in major funding problems and continued delays in the production delivery schedules. Airbus has recently been in discussions with European launch nations regarding cost and delivery dates. According to international press releases, the programme should deliver the first customer baseline aircraft by the end of 2012.

The A400M undertook its maiden flight on 11 December 2009, and subsequently three more development aircraft have entered the test flight program to the first design baseline. The customer baseline aircraft is now nearing completion and is due to fly in late 2011. In terms of manufacture, the serial production phase has started at DSA on the Top Shells and the WFF.

The non-recurring Airbus design and industrialisation work is close to completion with total sales of R128m for 2010/11. This will be followed by an agreed ramp-up phase during which at least five production units have to be completed in the coming year to a projected value of only R25m. This will be followed with preparations to full-scale serial production with an annual income of R177m by 2017. The Airbus delayed projects, together with other work packages also coming to an end, will result in lower projected revenue for the short to medium-term, with cost recovery on currently contracted pricing agreements under significant pressure. These factors place tremendous financial pressure on DSA regarding retaining all capabilities required to deliver on the contracted work packages.

Avionics and navigation upgrade to the Oryx helicopter

The Drummer II programme was awarded to Denel Aviation in 2007 and is a fixed price and fixed term contract for an amount of R460m that was originally due to be completed by June 2012. During the year, it became apparent that the contract would not be completed within the planned costs considering the engineering and flight testing effort required. The programme is expected to slip by 28 months, with the new completion date being October 2014. This includes the development, qualification and production phases for the fleet of 38 aircraft. A detailed cost to completion exercise has subsequently been performed, and final indications are that there will be a cost overrun of approximately R140m that has been provided for in the financial statements for the year ended March 2011. It is clear that a fixed price fixed term contract is not appropriate for a programme with high development content.

Despite the challenges we are facing on this contract, the technical progress made on the prototype aircraft is in accordance with the revised schedule that has been agreed in principle with other contracting parties. Development flight testing is underway at Air Force Base Overberg, with the qualification flight testing scheduled to start during the second half of the year. The preliminary flight test results obtained are satisfactory and there are currently no major design challenges remaining on the program. Management is in discussions with Armscor and the SAAF to explore the possibility of a contract variation to mitigate cost overruns that could not have been foreseen at contract award.

Air-to-air missile

Dynamics Missiles is the prime contractor for the A-Darter collaboration programme between the governments of South Africa and Brazil to develop a fifth-generation infra-red air-to-air missile. Through a collaborative approach relationships have been developed between the respective air forces of the two countries and research establishments, engineering and manufacturing industries in South Africa and Brazil. In South Africa the programme has harnessed the competence and ingenuity of our research and manufacturing establishments, spanning the traditional defence sector and a growing involvement from industries in the general manufacturing sector as sub-contractors. The development of this missile is on track for production to commence late in 2012. The programme accounted for revenue of R319m in the year.

The flight clearance and integration program for carrying and firing the A-Darter from the Gripen fighter has been successfully completed under the leadership of Saab AB, the prime Gripen contractor. All required manufacturing technologies and processes effectively validated at selected local as well as international suppliers. Final missile qualification and performance validation is under way to achieve critical technical milestones during 2011/12. These tests need to be achieved to attain the contracted production baseline to secure production orders that need to be concluded during the next financial year to allow a seamless transition from development to serial production. The board does not foresee material risks on this project going forward.

Surface-to-air defence missile

The Umkhonto Block II programme was initiated by the SA Navy to equip the South African VALOUR-class frigates with an effective close in air defence capability. The release to operational service led to securing a contract from a NATO country to deliver a similar missile. This programme accounted for revenue of R46m in the year.

In assessing the missile's performance in the client's environment, it was found that the configuration was inadequate and required an upgrade. These upgrades were completed and firing trials successfully concluded. This allowed the launch of serial production and delivery of several batches of qualified production missiles with programme completion scheduled for 2011/12. These successes resulted in the SA Navy placing a follow-on order for Umkhonto Block II missiles that will provide this enhanced capability the SA Navy at minimal risk and without incurring additional development costs. The board does not foresee material risks on this project going forward.

Ground-based air defence programme

DISS is responsible for the design, development, integration and qualification of Phase 1 of an integrated ground based air defence capability for the SA Army as contracted under Project Guardian. Although originally envisaged as a simple integration programme, it evolved into a full-blown development programme with the associated risks and delays, without a contractual provision to mitigate Denel's cost and material exposures. In August 2010 the SA Army approved a revised technical baseline that would be acceptable for system delivery due to the fact that contracted performance was not attainable within prevailing technology boundaries. This decision was ratified by the Guardian Programme Control Board in the same month, with the strategic relevance of DISS as single-source service provider also re-confirmed. Additional funding was however not made available by the client. As a result the business entity did not generate any revenue and has posted a loss of R79m during the year.

Discussions between Denel, DoD acquisition management and Armscor are ongoing to consider mechanisms to complete Phase 1 of this programme and to activate follow-on phases.

Pension fund

The trustees of the Denel Pension Fund, a closed defined benefit pension fund of which the group was a principal employer until 1 September 2010, approved a strategy changing the fund to a pensioner alone fund. The trustees relinquished Denel from its current and any future pensioner and active member liability towards the fund, thereby allowing Denel to withdraw from the fund as a principal employer. The fund had an actuarial surplus prior to Denel withdrawing as principal employer, and was after approval by the relevant regulator, distributed on a 50/50 basis to the members of the fund and the employer, Denel.

Denel applied under Section 15E of the Pension Funds Act to the regulator for Denel's portion of the surplus to be transferred to DENRET, a defined contribution pension fund, with the intention of taking a contribution holiday. The regulator approved the transfer of the surplus to DENRET on 15 December 2010. The surplus allocated to Denel amounted to R463m and has been recognised in profit or loss. The cash flow benefit will, however, be accessed through a contribution holiday over an estimated period of four years. Denel has no future obligation towards the said fund or its members.

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 there from are housed in the Denel Medical Benefit Trust that was established in 2002. The assets and liabilities of the trust are held and accounted for in a separate set of records that are in the name of the trust, and are not included in the 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 the 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, 55% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy.

Denel could not complete the buyout process by the end of December 2010 as previously planned due to critical governance and administrative procedures that were pre-requisite for the process. However, with the first phase of the process completed, Denel is commencing a second phase of engaging the remaining beneficiaries to accept the settlement offer, paving the way to deregistering the trust.

The actuarial value of the fund and other disclosures are provided in note 33 of the *annual financial statements*.

Impairment of assets

Impairment assessments were performed on business entities that demonstrated possible impairment indicators. Specific considerations were made to areas where there was a marked decline in profitability and negative cash flows. In DSA, detailed impairment tests were performed. This exercise did not reveal a need to raise any impairment charge compared to the prior years' impairment charge.

Funding

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

Denel has interest-bearing borrowings with a coupon value of R1.85bn, raised through a Domestic Medium Term Note programme. These borrowings are backed by Government guarantees of R420m, R880m and R550m. We are pleased that the guarantees of R1.85bn were renewed on 31 March 2011 for an 18-month period, to 30 September 2012. The group's borrowings are at an average interest rate of 7.13% that includes an average overnight borrowing rate of 7.62%, and an average CPP interest rate of 6.64% with a total interest cost of R117m.

Denel has maintained its Fitch Ratings rating during the year at AA(zaf) long term and F1+(zaf) short term. However, the outlook was changed to negative due to Denel's continued operational challenges, with the rating agency relying strongly on the Shareholder's support.

The cash on hand and cash forecast for the next 12-months indicate that the group will be liquid during the forthcoming year. Denel will work with the Shareholder during the 2011/12 financial year in monitoring the cash position on a monthly basis.

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 R654m at 31 March 2011 and with cash and short-term deposit balances of R920m. Denel is a high working capital investment company due to the long-term nature of the contracts requiring ongoing funding. Therefore, the low shareholders' equity level continues to pose a risk to the group's solvency. The group also has to further cope with the strengthening of the Rand against major currencies. At this stage, the funding requirements of DSA pose a significant risk to the group's going concern. DSA is discussed earlier in this report.

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 12-months from reporting date, the solvency, cash position at year-end and available borrowing facilities. In summary, the directors considered in particular the following:

- The solvency and liquidity position of the group as at 31 March 2011. The Shareholder provided financial support to Denel by means of a recapitalisation of R3.5bn over the past five years and issued guarantees for funding of R1.85bn.
- The availability of sufficient funds to meet the group's requirements over the next 12 months including DSA.
- The forecast shareholder's equity for the 2011/12 financial year remains positive.
- The Shareholder views Denel as a strategic asset and has made an undertaking that it will endeavour to assist the directors in maintaining its going concern status.
- The cash flow forecast incorporating the cash on hand at year-end, the cash receivable from the short-term borrowing is expected to have a positive cash position at 31 March 2012.
- Government guarantees for R1.85bn to support the short-term borrowings that were extended on 31 March 2011, to meet the funding requirements of the group for the 2011/12 financial year.

Based on the above factors, the directors are satisfied that Denel has adequate reserves and cash resources to continue operating as a going concern for the 12-month period to 31 March 2012. 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 on the end-state, 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 a portion of recapitalisation plus guarantees or rolling over and issuing of guarantees, as may be appropriate.

Should the interventions referred to above be unable to address the profitability and liquidity issues, the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Compliance with laws and regulations

Denel has implemented a programme to ensure compliance with the legal and regulatory requirements throughout the group. The programme includes management processes to monitor, detect and address any weaknesses in the system to prevent non-compliance. 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.

Denel has engaged with the Directorate for Conventional Arms Control regarding instances where deviations from the arms control legislation were identified and reported during the previous financial year. Denel has fully co-operated with the authorities to close these issues and the board is satisfied that all exports and imports that did not have the requisite permits, according to the Directorate for Conventional Arms Control report, were traced and are in line with the contracting permits issued by the Directorate.

During the year, one of Denel's employees was charged with theft of information and the matter has been reported to the authorities. Whilst it is believed that this is an isolated case, Denel has commenced a process of strengthening information security.

Litigation and claims

Denel is involved in an ongoing dispute with the Government of India, following the cancellation of contracts and the suspension of trade with Denel, as well as the institution of a criminal investigation, after allegations of criminal conduct by Denel in India, appeared in newspapers in 2005. This is a long outstanding matter in terms of which, 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 co-operate with the Government of India on this matter. Once the legal processes by the Indian authorities are finalised, Denel is optimistic that the trading relationship between it and the Government of India will normalise.

Directors

The following board changes took place during the year:

- Ms C Mulder, Ms T Seretse, Messrs B Halse, S Phalatse, and C Savage, resigned from the board on 27 August 2010.
- Ms M Janse van Rensburg, Ms B Paledi and Prof T Marwala were appointed to the board on 27 August 2010.

The board of directors and executive committee, together with their profiles, are set out on pages 31 to 39 and in the *corporate governance report* on page 85.

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 group's executive directors and senior executives are competitively rewarded for their individual contribution to the group's overall performance.
- Demonstrate to all stakeholders in Denel that senior executives do not determine their own remuneration.
- Demonstrate to stakeholders that governance procedures are followed in the appointment of executive directors and senior executives of the group.
- Ensure that performance parameters of senior executives and executive directors are set and reviewed in accordance with the shareholder's compact.

In doing this, the P&R committee ensures that there is:

- A group remuneration and reward policy governing basic pay, benefits and incentives.
- Alignment to the group's performance management system and process that outlines the process of evaluating performance.
- A formal process of appointing executive directors and senior executives.

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

The GCEO, the GFD, and the group executive: human resources and transformation attend the meetings as invitees to assist the committee in the execution of its mandate. No member of the executive committee takes part in discussions regarding their own remuneration nor are they present in the meetings when such decisions are taken. Independent experts are used to provide advice on market information as and when required.

Executive remuneration reviews

The P&R committee reviews the remuneration of the GCEO, the executive committee members and the CEOs of the operating business entities. In reviewing the remuneration of senior executives, the committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration provided by the DPE for SOE's. 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. Annual increases take place on 1 April of each 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	2011 Total R'000	2010 Total R'000
Mr MT Sadik	3 184	410	378	3 972	3 841
Mr F Mhlontlo	2 577	110	293	2 980	2 867
Mr JV Morris	1 693	96	216	2 005	1 932
Maj Gen (Ret) OA Schür	1 220	96	118	1 434	1 364
Mr ZN Ntshepe	1 066	186	141	1 393	1 341
Ms TP Mushungwa	1 150	147	158	1 455	1 326
TOTAL	**10 890**	**1 045**	**1 304**	**13 239**	**12 671**

Variable pay

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

The criteria as to who is eligible for what percentage is outlined in the policy e.g. executive committee members have 40% set aside on risk, senior managers are eligible for 20% and the rest of the workforce 10%. These are on a sliding scale depending on the level of performance. Performance contracts are based on the group's strategic drivers and business priorities. Stretch performance targets were introduced for the new financial year.

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

Management and executive directors	2011 R'000	2010 R'000
Mr MT Sadik	1 857	1 785
Mr F Mhlontlo	1 488	1 431
Maj Gen (Ret) OA Schür	673	542
Mr ZN Ntshepe	645	528
Ms TP Mushungwa	680	528
Mr JV Morris	943	773
TOTAL	6 286	5 587

Non-executive directors' remuneration

The P&R committee reviews non-executive directors' fees annually. Market benchmarks and the DPE's remuneration guidelines are used to determine and make recommendations on non-executive directors' fees and presented at the AGM for approval by the Shareholder.

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

Management and executive directors	2011 R'000	2010 R'000
Dr SP Sibisi (chairman)	715	715
Ms CC Mulder [3]	86	227
Dr BG Halse [1]	54	125
Mr MS Phalatse [3]	58	211
Mr CML Savage [3]	71	216
Ms S Chaba	276	256
Ms T Seretse [3]	72	113
Mr LC Jones	238	328
Mr RN Kunene	248	215
Dr GC Cruywagen	294	264
Ms NH Maliza [5]	-	36
Ms D Vallabh [5]	-	36
Prof T Marwala [4]	123	-
Ms MJ Janse van Rensburg [4]	161	-
Ms B Paledi [4]	151	-
SUB-TOTAL	2 547	2 742
Mr NR Boqo [2]	15	15
TOTAL	2 562	2 757

1 *Donated his director's emoluments to DTA*
2 *External independent member of the group audit and risk committee – resigned 31 January 2011*
3 *Resigned on 27 August 2010*
4 *Appointed on 27 August 2010*
5 *Resigned in 2010*

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 101.

Subsidiaries and associated companies

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

Subordination agreements

The group has subordinated loans of R621m 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 R173m whereas R88m was utilised, mainly in upgrading the business entity production facilities.

Share capital and share premium

The authority to issue shares vests in the Shareholder. Directors do not have the authority to issue shares of the company. There has been no change in the authorised share capital of the company for the financial year.

Dividends

No dividend was recommended for the 2011 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 AGM scheduled for 6 July 2011.

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 as stated below, which is also the address of the registered office of the company.

Denel	P O Box 8322
Nellmapius Drive	Centurion
Irene	0046

In terms of section 268G (d) of the Companies Act no. 61 of 1973, as amended, she certifies that the company has lodged with the Registrar of Companies all such returns as are required of a company in terms of the Act, and that all such returns are true, correct and up-to-date.

Events after reporting period

In order to identify events after the reporting period, all material matters affecting the group between the approval of the group annual financial statements and the publication of this report were taken into account.

The following matters arose between 31 March 2011 and 27 June 2011:

- Saab, a former 20% shareholder in DSA, exercised its share option during March 2011 and as a result Denel had to buy back Saab's shareholding. The original capital contribution by Saab and the nominal value for the shares totalling R66m was paid back on 1 April 2011. Denel is in discussion with Saab regarding the claim on Denel by Saab of loans of R100m advanced, by Saab in its capacity as a shareholder to DSA over the last four years.
- DLS concluded a contract during May 2011 of approximately R3bn to deliver a landward defence system to a country in the Far East. The contractual details are in the process of being concluded.
- Denel Dynamics concluded a contract during May 2011 with a country in the Middle East to deliver 1 000 missiles for approximately R1.2bn over a five year period. The appropriate structure to deliver on this contract is in the process of being put in place.

Consolidated statements of financial position

as at 31 March 2011

		Group		Company	
			Restated		
	Notes	2011 Rm	2010 Rm	2011 Rm	2010 Rm
ASSETS					
Non-current assets		**2 110**	**1 677**	**1 900**	**1 492**
Property, plant and equipment	9	660	683	538	543
Investment properties	10	448	406	448	406
Intangible assets	11	57	57	57	57
Investments in subsidiaries	12	-	-	9	4
Investments in associates	13	566	518	477	477
Loans and receivables	14	371	5	371	5
Deferred tax assets	15	8	8	-	-
Current assets		**2 921**	**3 343**	**2 502**	**2 684**
Inventories	16	570	713	451	463
Trade and other receivables	17	1 157	1 332	933	1 022
Reinsurance asset	18	20	19	-	-
Loans and receivables	14	191	5	191	5
Other financial assets	19.1	21	77	21	63
Income tax receivables		8	4	7	-
Cash and short-term deposits	20.1	920	1 038	865	976
Cash held on behalf of associates	20.2	34	155	34	155
Assets classified as held for sale	5	7	-	-	-
Total assets		**5 038**	**5 020**	**4 402**	**4 176**

Consolidated statements of financial position

as at 31 March 2011

	Notes	Group 2011 Rm	Group Restated 2010 Rm	Company 2011 Rm	Company 2010 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		44	45	43	44
Accumulated loss		(4 866)	(4 878)	(5 202)	(5 327)
Total equity attributable to equity holders of the parent		654	643	317	193
Non-controlling interest	22	-	(34)	-	-
Total equity		654	609	317	193
Non-current liabilities		475	457	338	340
Interest bearing loans and borrowings	23	101	101	-	-
Provisions	24.1	369	350	338	340
Deferred tax liabilities	15	5	6	-	-
Current liabilities		3 909	3 954	3 747	3 643
Trade and other payables	25	658	634	602	500
Interest bearing loans and borrowings	23	1 845	1 943	1 845	1 943
Other financial liabilities	19.2	45	97	37	48
Advance payments received	26.1	860	602	806	561
Provisions	24.2	501	678	457	591
Total liabilities		4 384	4 411	4 085	3 983
Total equity and liabilities		5 038	5 020	4 402	4 176

Consolidated income statements

for the year ended 31 March 2011

	Notes	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Continuing operations					
Revenue	2	3 252	3 610	2 632	2 844
Cost of sales	3	(2 749)	(3 032)	(2 121)	(2 142)
Gross profit		503	578	511	702
Other income	4	80	106	206	172
Other operating expenses	3	(897)	(846)	(948)	(1 123)
Operating loss		(314)	(162)	(231)	(249)
Surplus allocation	33	463	-	463	-
Finance costs	7.1	(157)	(185)	(163)	(189)
Finance income	7.2	37	46	48	81
Share of profit of associates	13	115	79	-	-
Profit/(loss) before tax		**144**	**(222)**	**117**	**(357)**
Income tax expense	8	(33)	(24)	7	(5)
Profit/(loss) for the year		**111**	**(246)**	**124**	**(362)**
Profit/(loss) for the year is attributable to:					
Equity holders of the parent		158	(181)		
Non-controlling interest		(47)	(65)		
		111	**(246)**		

Consolidated statements of comprehensive income

for the year ended 31 March 2011

		Group		Company	
			Restated		
	Notes	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Profit/(loss) for the year		111	(246)	124	(362)
Other comprehensive income					
Net gain revaluation	9	-	6	-	6
Revaluation of property, plant and equipment on transfer to investment properties		-	8	-	8
Income tax effect		-	(2)	-	(2)
Other comprehensive income for the the year, net of tax		-	6	-	6
Total comprehensive income/(loss) for the year net of tax		**111**	**(240)**	**124**	**(356)**
Attributable to:					
Equity holders of the parent		158	(175)		
Non-controlling interest		(47)	(65)		
		111	**(240)**		

Consolidated statements of changes in equity

for the year ended 31 March 2011

		Attributable to equity holders of the parent			
	Notes	Issued capital Rm	Share premium Rm	Revaluation reserves [1] Rm	Contingency reserves [2] Rm
Group					
Balance at 1 April 2009		1 225	4 251	38	1
Total comprehensive income/(loss) (Restated)				6	-
Loss for the year		-	-	-	-
Other comprehensive income (Restated)		-	-	6	-
Non-controlling interest in subsidiary disposed	22	-	-	-	-
Balance at 31 March 2010 (Restated)		**1 225**	**4 251**	**44**	**1**
Total comprehensive income				-	-
Profit for the year		-	-	-	-
Other comprehensive income		-	-	-	-
Transfer (from)/to accumulated loss		-	-	(1)	-
Acquisition of non-controlling interest	22				
Balance at 31 March 2011		**1 225**	**4 251**	**43**	**1**
Company					
Balance at 1 April 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**	**-**
Total comprehensive income		-	-	-	-
Profit for the year		-	-	-	-
Other comprehensive income		-	-	-	-
Transfer (from)/to accumulated loss		-	-	(1)	-
Balance at 31 March 2011		**1 225**	**4 251**	**43**	**-**

[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, is required to raise a contingency reserve of 10.0% of premiums written, less approved reinsurance (as defined in the Short-term Insurance Act, 1998). The reserve can only be utilised with prior permission of the Registrar of Insurance.*

Consolidated statements of changes in equity

for the year ended 31 March 2011

Accumulated loss Rm	Total Rm	Non- controlling interest Rm	Total equity/ (deficit) Rm
(4 697)	818	31	849
(181)	(175)	(65)	(240)
(181)	(181)	(65)	(246)
-	6	-	6
-	-	-	-
(4 878)	643	**(34)**	609
158	158	(47)	111
158	158	(47)	111
-	-	-	-
1	-	**-**	-
(147)	(147)	81	(66)
(4 866)	654	**-**	654

(4 965)	549
(362)	(356)
(362)	(362)
-	6
(5 327)	193
124	124
124	124
-	-
1	-
(5 202)	317

Consolidated statements of cash flows

for the year ended 31 March 2011

	Notes	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
OPERATING ACTIVITIES					
Net cash flows from/(used in) operating activities		**178**	**(344)**	**355**	**(34)**
Receipts from customers		3 488	3 736	2 903	2 963
Payments to suppliers and employees		(3 625)	(3 870)	(2 940)	(2 876)
Cash utilised in operations	27	(137)	(134)	(37)	87
Increase/(decrease) in advance payments received		258	(73)	245	(84)
Interest paid		(3)	(183)	(9)	(187)
Interest received		32	50	43	85
Dividend received	4	33	13	113	72
Income tax paid		(5)	(17)	-	(7)
INVESTING ACTIVITIES					
Net cash flows used in investing activities		**(201)**	**(72)**	**(371)**	**(344)**
Purchase of property, plant and equipment	9	(88)	(87)	(75)	(70)
Proceeds from sale of property, plant and equipment		2	3	1	3
Proceeds from sale of investment properties		-	9	-	-
Purchase of intangible assets	11	(15)	(6)	(15)	(6)
Receipt of loans and receivables		5	9	5	9
New loans to associated companies		(105)	-	(105)	-
Proceeds from reduction in share investment in subsidiary				27	-
Advances to subsidiaries				(209)	(280)
Net cash flows before financing activities		**(23)**	**(416)**	**(16)**	**(378)**
FINANCING ACTIVITIES					
Net cash flows (used in)/from financing activities		**(203)**	**904**	**(203)**	**856**
Repayments of interest bearing borrowings		(3 300)	(2 078)	(3 300)	(2 078)
Proceeds from interest bearing borrowings		3 218	3 029	3 218	2 981
Decrease in cash managed on behalf of associated companies		(121)	(47)	(121)	(47)
Net (decrease)/increase in cash and cash equivalents		**(226)**	**488**	**(219)**	**478**
Cash and cash equivalents:					
At the beginning of the year		1 180	692	1 118	640
At the end of the year	20	**954**	**1 180**	**899**	**1 118**

Notes to the group annual financial statements

for the year ended 31 March 2011

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 2011 comprise the company, its subsidiaries and associated companies.

1.1 Statement of compliance

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

Basis of preparation

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

The preparation of group annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the group annual financial statements and estimates with a significant risk of material adjustment in the following year are discussed in note 1.2.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year. The group applied hedge accounting for the first time during the year except for one of the associated companies who applied hedge accounting for the first time in 2010. The group designates hedges for foreign currency risks of firm commitments as fair value hedges, however, one of the associated companies designates them as cash flow hedges. IFRS requires that the investor's financial statements to be prepared using uniform accounting policies for like transactions and events in similar circumstances. No restatement of the group's comparatives is necessary except for the adjustment to convert the cash flow hedge transaction of the associated company to fair value hedge transactions. The group's share of net gain on hedge instruments recognised in the prior year by the associated company is R48m with a deferred income tax effect of R13m resulting a net share in other comprehensive income of R35m.

Notes to the group annual financial statements

for the year ended 31 March 2011

The table below reflects the amounts as previously reported against the restated amounts:

	2010 Restated Group Rm	2010 Previously reported Group Rm
Other comprehensive income		
Net gain on hedges	-	35
Net gain on hedge instruments	-	48
Income tax effect	-	(13)
Consolidated statements of financial position		
Other reserves	45	80
Investment in associates	518	553
Notes to the consolidated financial statements		
Investment in associates (note 13)		
Net share of results in associated companies	42	77
Other comprehensive income, net of tax	-	35
Total net investments in associated companies	518	553

Note the changes do not affect the comparatives figures of the company and is therefore not disclosed. No adjustments was made to any balances for the beginning of the comparative period as the associated company applied hedge accounting for the first time during the 2010 financial year.

Notes to the group annual financial statements

for the year ended 31 March 2011

The following amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations became effective during the year:

Standard/ interpretation	Title	Effective date	Impact and application
	Improvements to IFRS (May 2010)	All early adopted	
	IFRS 1 First time Adoption of International Reporting Standards	1 January 2011	Not relevant to the group
	IFRS 3 Business Combinations		Not relevant to the group
	IFRS 7 Financial Instruments: Disclosures	1 July 2010	Not relevant to the group
	IAS 1 Presentation of Financial Statements	1 July 2010	No financial impact, however the changes impact on disclosure
	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements	1 July 2010	No financial impact, however the changes impact on disclosure
	IAS 34 Interim Financial Reporting	1 January 2011	Not relevant to the group
	IFRIC 13 Customer Loyalty Programmes	1 January 2011	Not relevant to the group
IFRS1	First-time Adoption of International Financial Reporting Standards (Amended) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011 (early adopted)	Not relevant to the group
IFRS7	Financial Instruments:Disclosures (Amemended) Disclosures - Transfers of Financial Assets	1 July 2011 (early adopted)	No financial impact, however the changes may impact on future disclosure
IAS 12	Income Taxes Deferred Tax: Recovery of Underlying Assets	1 January 2012 (early adopted)	No financial impact

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

IFRS7 Financial Instruments: Disclosures (Amended)

The amendment to IFRS 7 Financial Instruments: Disclosures was issued in October 2010. The amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment had no impact on the financial position or performance of the group as no transfer transactions of financial assets had taken place for the financial periods under review.

IAS 12 Deferred Tax: Recovery of underlying assets (Amended)

The amendment to IAS 12 Income Taxes was issued in December 2010. The amendment introduced the "rebuttable presumption" that an investment property measured using the fair value model in terms of IAS 40 Investment Property will be recovered in its entirety through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The amendment is effective for annual periods beginning on or after 1 January 2012, with earlier application permitted. The amendment had no impact on the financial position or performance of the group as the group already measured deferred tax in this manner.

Notes to the group annual financial statements

for the year ended 31 March 2011

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 groups' 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 impairment.

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 effects of transactions with non-controlling interest are recorded in equity as transactions with equity owners of the group. For purchases from non-controlling interest, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

When the group ceases to have control, any retained interest in the entity is remeasured at its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest as an associate, joint venture or financial asset.

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.

Management made significant judgements on the following programmes (for more detail discussion on these programmes refer to the directors report):

Rooivalk contract

The provision for the contract loss of R116m (2010: R155m) at year-end has been determined based on the obligations arising from the cabinet memorandum (decision) of June 2008, representing both the customer and the Shareholder. It is no longer based on the original contract. In terms of a legal opinion obtained, a cabinet memorandum is an executive decision similar in effect with law passed and is binding to all who are affected by it. Management made certain assumptions regarding scope in determining the provision with reference to the cabinet memorandum and the completed aircraft delivered to the client in April 2011.

Notes to the group annual financial statements

for the year ended 31 March 2011

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. These include quantities to be delivered on specific dates, escalations and a delay of 4 years.

Drummer II programme

The Drummer II programme is a fixed price fixed term amount of R460m to be concluded by June 2012. A cost overrun is expected on the programme due to the expected slippage by 28 months, with the new completion date being October 2014. This includes the development, qualification and production phases for the fleet of 38 aircraft. Assumptions have been made with regards to estimated labour hours, material costs and escalations.

Impairment of property, plant and equipment

Impairment assessments are performed on business 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.

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 every three years performs a detailed study in consultation with external specialists in the Land Systems business segment, which is most likely area to have such contamination. Following the study, a high level review of the remaining business segments is 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 are 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 is 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 6.6% (2010: 6.9%) have been discounted at an interest rate of 8.8% (2010: 8.7%), which is based on the risk free rate of return and the expected long-term inflation rate.

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Countertrade

The group endeavours to fulfil its countertrade obligations as indicated in note 26.6 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 profit or loss when significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

Long-term contracts

Contract revenue and costs relating to long-term construction contracts are recognised in profit or loss in proportion to the stage of completion of the project at year-end if the outcome of a contract can be estimated reliably. However, when the outcome of a contract cannot be reliably measured then revenue is recognised to the extent of contract costs incurred that is probable of being recovered, while contract costs are recognised in the period in which they 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.

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- 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 profit or loss.

Income from investment properties

Income from investment properties comprises mainly rental income received in terms of rental agreements and is recognised on a straight-line basis over the lease terms. Lease incentives granted are recognised in profit or loss as an integral part of the total rental income.

Finance income and expense

Finance income comprises interest income on funds invested.

Interest income is recognised using the effective interest rate 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 profit or loss using the effective interest rate method.

Other income

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

Dividends

Dividends are recognised in profit or loss when the right to receive the payment is established.

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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 recognised in profit or loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are recognised in profit or loss.

1.3.3 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit or loss as finance cost as it occurs.

1.3.4 Taxes

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

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

Deferred tax is provided in full using the 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 reporting 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.

Deferred tax assets and liabilities are recognised on a net basis for each tax entity.

Notes to the group annual financial statements

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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.

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 rate method. Where a loan has been impaired, the impairment loss is recognised as an expense in profit or loss in the period in which the impairment has occurred.

Trade and other receivables

Trade and other receivables are carried at amortised cost less impairment losses. Impairment losses are recognised in profit or loss and are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective rate of receivables. Once an impairment loss has been recognised, recovery proceedings are continued. Impairment losses are decreased in subsequent periods only if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised.

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Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits held on call with banks, net of bank overdrafts, and investments in money market instruments with an original maturity of three months or less, all of which are available for use.

Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowing.

Borrowings

After initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest 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 profit or loss.

Derivative financial instruments

The group holds derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities, and its exposure to volatility in commodity prices. The group does not hold these derivative financial instruments for trading purposes. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any gains or losses on the measurement of the derivative financial instruments are recognised in profit or loss. The fair value of derivative financial instruments is determined by reference to the quoted market price for assets held or liabilities to be settled at the reporting date.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately. The group contracts in various currencies based on the preference and location of the 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 except if such currency is a common currency.

All foreign exchange embedded derivatives are measured at fair value. Gains or losses arising on subsequent measurement of embedded derivatives and options are recognised in profit or loss. The embedded derivative assets or liabilities are released to sales, cost of sales, operating costs or a related asset to reflect a Rand host contract at the initial expected forward rate when risks and rewards pass to customers or the group.

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On 1 July 2009, Denel voluntarily changed its accounting policy to view the USD, GBP 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 profit or loss.

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.

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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 reporting date are translated to Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the prevailing date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined.

1.3.7 Investment properties

Investment properties comprise property held to earn rentals, for long-term capital appreciation or both, and are not occupied by the group. Investment properties are treated as long-term investments and are initially measured at cost. Subsequent to initial recognition, investment properties are carried at fair value, determined annually by independent external registered appraisers. Changes in fair value are recognised in profit or loss. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

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 profit or loss when the compensation becomes receivable.

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

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals and for capital appreciation or both. Any such property interest under an operating lease is classified as an investment property is carried at fair value. Lease payments are accounted for as described in the accounting policy for leases.

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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 profit or loss as an expense when incurred.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised at the earlier of:

a) The date of disposal; or
b) The date when no future economic benefits are expected from its use or disposal.

Gains and/or losses on derecognition of items of property, plant and equipment are recognised in profit or loss.

Transfer to investment properties

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

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.

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 statement of financial position. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is expensed over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases, where the lessor retains the risks and rewards of ownership of the underlying asset, are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives paid are recognised in profit or loss as an integral part of the total lease expense.

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

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

1.3.10 Intangible assets

Intangible assets that are acquired separately by the group are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite useful life are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is charged to profit or loss on the straight-line basis over the estimated useful lives of intangible assets. The amortisation period and amortisation method are reviewed annually and any change is treated as a change in estimate.

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

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Research and development costs

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Development costs initially recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are reviewed annually and are expensed if they no longer meet the criteria for capitalisation.

The amortisation of capitalised development costs commences once the product or service becomes available for sale or use. Capitalised development costs are amortised over the period of expected 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. The useful life of computer software is estimated to be between three and five years. Annual license fees on software are expensed in the year of accrual.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being, the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on the group's reporting format determined in accordance with IFRS 8 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill, is recognised in profit or loss.

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

1.3.11 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

Non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Internal and external indicators are considered. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined based on the cash-generating unit to which the asset belongs.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. Any subsequent reversal of an impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

An impairment loss in respect of goodwill is not reversed.

In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

1.3.12 Inventories

Inventories are stated on the first-in-first-out (FIFO) basis at the lower of cost price and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business less the cost of completion and selling expenses. The weighted average basis is used for certain inventory items such as chemicals and liquids where it is not practical to apply the FIFO basis. The standard cost method is used where the results approximate the actual cost. Under a standard costing system the cost of a product is determined using predetermined rates for the material, labour and overhead expenses based on manufacturing specifications. Where inventory has been acquired on extended credit terms, the cost is adjusted with the interest expense and recognised over the payment period in profit or loss. Where trade discounts, rebates and similar items are received, it is deducted in determining the cost of inventory.

The following specific methods are applied in determining cost price:

Raw materials and bought-out components

These are valued at direct cost of purchase plus the other costs incurred to bring it to 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.

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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 contribution plan and a defined benefit (Denel withdrew from this fund as principal employer on 1 September 2010), 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.

The allocated surplus relating to the pension fund apportionment scheme is recognised in profit or loss on approval of the scheme by the Financial Service Board.

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

Other post-retirement obligations

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The expected cost of this benefit is accrued over the period of employment and is funded by the Denel Medical Benefit Trust. Independent qualified actuaries carry out valuations of these obligations on an annual basis.

1.3.16 Countertrade obligations

Countertrade obligations arise when the group has entered into export contracts where the buyer's country requires countertrade by the group or where the group has entered into local defence contracts which requires the group to impose countertrade obligations on suppliers in favour of South Africa on all imported content. 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.

Notes to the group annual financial statements

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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 profit or loss.

Reinsurance contracts held

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

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

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.
- Hedges of a net investment in a foreign operation.

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and is recognised in profit or loss.

Notes to the group annual financial statements

for the year ended 31 March 2011

If a cash flow hedge meets the conditions for hedge accounting the portion of the gain or loss on the hedge instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

If an effective hedge of a forecast transaction subsequently results in the recognition of an financial asset or financial liability, the associated gains or losses recognised in equity are recognised in profit or loss in the same period in which the asset or liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

If a hedge of a net investment in a foreign entity meets the condition for hedge accounting, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. On disposal of a foreign entity, the gain or loss recognised in equity is transferred to profit or loss as a reclassification adjustment.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the forecast transaction is no longer expected to occur or when the hedge designation is revoked.

1.3.20 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 2011, the following standards and interpretations were in issue but not yet effective:

Standard or Interpretation	Title	Issue date	Effective date
IFRS 9	Financial Instruments	November 2009	1 January 2013
IFRS 10	Consolidated Financial Statements	May 2011	1 January 2013
IFRS 11	Joint Arrangements	May 2011	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	May 2011	1 January 2013
IFRS 13	Fair Value Measurement	May 2011	1 January 2013

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 plans to adopt the standard only once the other parts of the project are available to enable the group to adopt them simultaneously. 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.

Notes to the group annual financial statements

for the year ended 31 March 2011

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.

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

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

IFRS 11 Joint Arrangements

IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

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

Notes to the group annual financial statements

for the year ended 31 March 2011

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

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

IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement establish a single source of guidance under IFRS for all fair value measurement that will improve consistency and reduce complexity by providing, for the first time, a precise definition of fair value and disclosure requirements for use across IFRSs. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

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

	Group		Company	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm
2 Revenue				
Sale of goods and services	3 183	3 546	2 548	2 765
Rental income	69	64	84	79
	3 252	**3 610**	**2 632**	**2 844**

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:

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Amortisation of intangible assets (refer note 11)				
Software	15	9	15	9
Impairment raised/(reversed)	15	1	286	437
Property, plant and equipment (refer note 9)	2	12	(2)	12
Intangible assets (refer note 11)	-	3	-	3
Investments in subsidiaries (refer note 12)	-	-	243	434
Inventories (refer note 16)	11	24	43	24
Trade and other receivables	2	(38)	2	(36)
Auditors' remuneration	17	16	13	12
Current year	14	14	12	11
Previous year's under accrual	1	1	-	-
Other	2	1	1	1

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
3 Cost of sales and other operating expenses (continued)				
Depreciation (refer note 9)	93	92	73	76
Buildings	10	13	10	13
Plant and machinery	56	53	41	41
Vehicles and office furniture	10	9	5	5
Computer equipment	17	17	17	17
Operating expenses for investment properties	90	100	90	100
Operating lease payments	79	78	76	76
Buildings	68	67	68	67
Plant and machinery	4	3	3	3
Vehicles and office furniture	2	6	2	4
Computer equipment	5	2	3	2
Directors' remuneration [2]	12	13	12	13
Executive directors	10	10	10	10
Non-executive directors	2	3	2	3
Consultation fees	66	104	62	98
Costs of inventories recognised as an expense	1 315	1 255	1 097	1 062
Loss on disposal of assets				
Property, plant and equipment	8	4	8	1
Net loss on financial instruments (refer note 6)	10	7	52	3
Research and development costs [1]	706	835	684	634
Staff costs	1 467	1 614	1 062	1 067
Services costs	1 308	1 419	928	948
Staff and related provisions	(34)	(11)	(17)	(17)
Medical fund contributions	82	88	59	63
Termination benefits paid	15	26	15	1
Pension costs: Defined contribution plan	91	90	72	70
Pension costs: Defined benefit plan (less than R1m)	-	-	-	-
Other long-term benefit contributions	5	2	5	2

[1] *The R&D costs are mainly customer funded, excluding an amount of R74m (2010 R132m) charge against provosions and R9m (2010 R0m) that has been capitalised.*

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

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
4 Other operating income				
Administration and management fees	2	2	11	13
Royalties income [1]	8	11	8	11
Fair value adjustment on investment properties (refer note 10)	42	27	42	27
Profit on disposal of property, plant and equipment	1	2	-	2
Dividend received	-	-	113	72
Other [2]	27	64	32	47
	80	**106**	**206**	**172**

[1] Royalties income as a result of the use of intellectual property developed by the group.

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

5 Non-current assets held for sale and discontinued operations

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

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

- The property division of Denel has over the past five years not been actively marketing the Houwteq property based in the Western Cape. However, the business entity continues to be in discussion with the Department of Publics Works regarding the disposal of the said property. There are significant uncertainties that the property will be disposed of, therefore, the directors consider that the assets do not meet the requirements for disclosure at this stage.
- Denel has received an offer from a local company within the industry to buy significant assets within DSA and take over specific contracts. If the deal is to be concluded DSA business would, in essence, be transferred to the potential buyer. There are significant uncertainties that the deal would be concluded as both the potential buyer and a major client had put conditions for the transaction to be successful, which are outside the control of Denel. These conditions may substantially delay the completion of the transaction, therefore, the directors consider that the disposal does not meet the requirements for disclosure at this stage.

Assets held for sale

Property, plant and equipment	7	-	-	-

The assets relates to a manufacturing plant that is under utilised for which a buyer has been identified.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
6 Net gains/(losses) on financial instruments				
6.1 Net foreign exchange differences	(10)	(18)	(52)	(14)
Losses on settled transactions	(15)	(239)	-	(13)
Gains on settled transactions	81	262	45	42
Losses on fair value adjustments	(121)	(198)	(101)	(151)
Gains on fair value adjustments	57	157	16	108
Losses on firm commitment remeasurement	(13)	-	(13)	-
Gains on firm commitment remeasurement	1	-	1	-
6.2 Net differences on commodity derivatives	-	11	-	11
Gains on fair value adjustments	-	11	-	11
	(10)	(7)	(52)	(3)

7 Net finance cost

The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
7.1 Finance costs				
Current interest bearing borrowings	118	123	118	123
Non-current interest bearing borrowings	-	8	-	-
Unsecured	-	8	-	-
Inter-group finance costs	-	-	6	12
Finance costs on financial liabilities	118	131	124	135
Unwinding of discount on provisions	39	54	39	54
Total finance costs	157	185	163	189
7.2 Finance income				
Gross interest received	37	46	33	42
Inter-group finance income	-	-	15	39
Total finance income	37	46	48	81
Net finance costs	120	139	115	108

Notes to the consolidated financial statements

for the year ended 31 March 2011

8 Taxation expense

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
SA Normal tax				
Current tax	7	5	-	-
Deferred tax (refer note 15)	(1)	(2)	-	(2)
STC	(7)	7	(7)	7
Share of associated companies	34	14		
Current tax	20	27		
STC	3	1		
Deferred tax	11	(14)		
	33	**24**	**(7)**	**5**

No provision for SA Normal tax has been made for all companies within the group that are in a calculated tax loss position.

	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	22.9	(10.8)	(6.0)	(1.4)
Adjustment in tax rate due to:	5.1	38.8	34.0	29.4
Exempt income	8.1	(3.7)	37.0	(8.1)
Secondary tax on companies	4.6	3.2	5.7	1.9
Deferred tax asset not recognised	(86.8)	34.9	(52.9)	1.8
Impairment of investments	-	-	(58.1)	35.5
Taxable capital gains	-	0.2	-	-
Share of associated companies	(1.3)	7.0	-	-
Other	80.5	(2.8)	102.3	(1.7)
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	5 883	5 476	4 699	4 588
Capital gains tax assessed losses	175	175	175	175
Net available calculated tax losses	**6 058**	**5 651**	**4 874**	**4 763**

Notes to the consolidated financial statements

for the year ended 31 March 2011

9 Property, plant and equipment

Group

2011

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
Carrying value at 1 April	248	359	34	42	683
Additions	2	64	12	10	88
Disposals	-	(9)	-	-	(9)
Reclassification	-	1	1	(2)	-
Transfer to assets held for sale	-	(7)	-	-	(7)
Impairment for the year (refer note 3)	-	(2)	-	-	(2)
Depreciation for the year (refer note 3)	(10)	(56)	(10)	(17)	(93)
Carrying value at 31 March	**240**	**350**	**37**	**33**	**660**
Cost	373	1 317	99	149	1 938
Accumulated depreciation and impairment	(133)	(967)	(62)	(116)	(1 278)
Carrying value at 31 March	**240**	**350**	**37**	**33**	**660**

2010

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
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**

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
9 Property, plant and equipment (continued)					
Company					
2011					
Carrying value at 1 April	248	236	18	41	543
Additions	1	60	4	10	75
Disposals	-	(9)	-	-	(9)
Reclassification	-	1	1	(2)	-
Impairment for the year (refer note 3)	-	2	-	-	2
Depreciation for the year (refer note 3)	(10)	(41)	(5)	(17)	(73)
Carrying value at 31 March	**239**	**249**	**18**	**32**	**538**
Cost	372	1 029	54	139	1 594
Accumulated depreciation and impairment	(133)	(780)	(36)	(107)	(1 056)
Carrying value at 31 March	**239**	**249**	**18**	**32**	**538**
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**

Registers of property, plant and equipment are open for inspection at the business entities of the group.

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 were impaired in the recent past due to a lack of orders, whilst no new impairment raised this year there is no new business foreseen in the near future that will utilise these assets and as a result there was no impairment write back.

Plant and machinery includes assets under construction of R24m (2010: R37m) for the group and R17m (2010: R21m) for the company.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
10 Investment properties				
Fair value at 1 April	406	364	406	364
Transfer from property, plant and equipment (refer note 9)	-	15	-	15
Fair value adjustment	42	27	42	27
Fair value at 31 March	**448**	**406**	**448**	**406**

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.

11 Intangible assets

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Development costs	9	-	9	-
At cost	97	88	97	88
Accumulated amortisation and impairment	(88)	(88)	(88)	(88)
Software	48	57	48	57
At cost	92	83	92	83
Accumulated amortisation and impairment	(44)	(26)	(44)	(26)
Total carrying value at 31 March	57	57	57	57
Reconciliation				
Development costs				
Carrying value at 1 April	-	-	-	-
Capitalised during the year	9	-	9	-
Carrying value at 31 March	9	-	9	-
Software				
Carrying value at 1 April	57	63	57	63
Additions	6	6	6	6
Impairment for the year (refer note 3)	-	(3)	-	(3)
Amortisation for the year (refer note 3)	(15)	(9)	(15)	(9)
Carrying value at 31 March	48	57	48	57
Total carrying value at 31 March	57	57	57	57

Notes to the consolidated financial statements

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12 Investments in subsidiaries

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Unlisted shares			860	894
Net loans			559	452
Amounts due by subsidiaries			621	648
Amounts due to subsidiaries			(62)	(196)
Gross investments			1 419	1 346
Accumulated impairment			(1 410)	(1 342)
Carrying value at 31 March			**9**	**4**

Loans to subsidiaries of R621m (2010: R618m) 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.

Reconciliation of carrying value of investments in subsidiaries

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Gross investment			1 419	1 346
Accumulated impairment			(1 410)	(1 342)
Carrying value at 31 March			**9**	**4**

The accumulated impairment loss on investments in subsidiaries is as follows:

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Unlisted shares			789	723
Balance at 1 April			723	723
Impairment for the year			139	-
Amounts written-off due to subsidiaries wind-up			(73)	-
Loans			621	619
Balance at 1 April			619	185
Amounts written-off due to subsidiaries wind-up			(102)	-
Impairment for the year			104	434
			1 410	**1 342**

Included in the impairment for the year of unlisted shares is an amount of R73m that relates to a dividend received from pre-acquisition reserves.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
		Restated		
	2011 Rm	2010 Rm	2011 Rm	2010 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:

	Group 2011 Rm	Group Restated 2010 Rm	Company 2011 Rm	Company 2010 Rm
Unlisted shares	476	476	477	477
Net share of results in associated companies	90	42		
Share of current year profit before tax	115	79		
Share of current year tax	(34)	(14)		
Share of current year profit after tax	81	65		
Dividend paid by associated companies	(33)	(13)		
Accumulated profit/(loss) at 1 April	42	(10)		
Total net investments in associated companies	**566**	**518**	**477**	**477**

The following represents the summarised financial information of the associated companies:

	Group 2011 Rm	Group Restated 2010 Rm	Company 2011 Rm	Company 2010 Rm
Total assets	2 052	1 764		
Non-current assets	449	315		
Current assets	1 603	1 449		
Total liabilities	(1 102)	(855)		
Non-current liabilities	(244)	(105)		
Current liabilities	(858)	(750)		
Net assets	**950**	**909**		
Group share of associated companies' net assets	422	407		
Revenue	1 820	1 730		
Group share of revenue	817	747		
Group share of profit before tax	115	79		

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

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
14 Loans and receivables				
Non-current loans and receivables	371	5	371	5
Current loans and receivables	191	5	191	5
	562	**10**	**562**	**10**

14.1 Loans receivable

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Loans at amortised cost	110	10	110	10
Secured loan	5	10	5	10
Loans to an associate	105	-	105	-
Less: Current portion of loans receivable	(93)	(5)	(93)	(5)
Secured loan	(5)	(5)	(5)	(5)
Loans to an associate	(88)	-	(88)	-
	17	**5**	**17**	**5**

The secured loan is a loan to SITA that has a balance of R5m (2010: R10m) and earns interest at a rate equal to the prime lending rate plus 1.5% 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 loans to an associate (RDM) comprises two dirrerent loans. The non-current loan of R17m is repayable not before January 2014 earns interest at a rate based on the three month JIBAR plus 1.4% per annum. The loan granted is in the same proportion to the shareholding. The current loan is a revolving credit facility granted to the associate to meet its short term bridging finance, is repayable on 31 May 2011 and earns interest at a rate equal to the prime lending rate minus 2.0% per annum. The parent company of the associate guarantees 51% of the outstanding balance of the loan.

14.2 Pension asset

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Gross amount receivable	452	-	452	-
Less: Current portion of pension holiday receivable	(98)	-	(98)	-
	354	**-**	**354**	**-**

The pension asset relates to the unutilised balance of the pension surplus. DenPen, a defined benefit plan, became a pensioners' alone fund on 1 September 2010 following decision by trustees and members, and as a result Denel withdrew as a principal employer. The actuarial surplus in the fund mostly arising before the said restructuring was shared on a 50/50 basis between Denel and the members of the fund. The active members were transferred to DenRet. The assets underlying the actuarial surplus allocated to Denel were transferred to DenRet and is accessed by Denel through a contribution holiday over the next four years. These assetss are mainly invested in the money market. Refer also to note 33.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
15 Deferred tax				
Deferred tax assets	8	8	-	-
Deferred tax liabilities	(5)	(6)	-	-
	3	**2**	**-**	**-**
Movement of deferred tax assets and liabilities:				
Balance at 1 April	2	2	-	-
Per income statement	1	2	-	2
Other comprehensive income	-	(2)	-	(2)
	3	**2**	**-**	**-**
Net deferred tax asset comprises:				
Provisions	282	310	261	284
Property, plant and equipment allowance	37	38	3	-
Prepayments received	241	168	225	157
Amounts due to customers for work invoiced, not yet performed	6	5	6	5
Embedded derivative liabilities	10	26	8	12
Other tax deductible differences	221	187	183	132
Limit deferred tax asset to liability	(536)	(438)	(470)	(355)
Assessed loss	3	2	-	-
	264	**298**	**216**	**235**
Net deferred tax liability comprises:				
Capital allowances	(108)	(103)	(108)	(102)
Doubtful debt allowance	(5)	(6)	(5)	(6)
Prepayments made	(3)	(10)	(3)	(10)
Amount due from customers for contract work	(132)	(170)	(99)	(116)
Reinsurance asset	(6)	(6)	-	-
Other taxable differences	(1)	(1)	(1)	(1)
	(255)	**(296)**	**(216)**	**(235)**

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised.

Had a full deferred tax asset been recognised on the calculated tax loss, the value of the deferred tax asset at year end would have been R1 696m (2010: R1 555m) for the group and R1 365m (2010: R1 306m) for the company.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
16 Inventories				
Inventories are valued at the lower of cost and net realisable value and is categorised as follows:				
Raw materials and bought-out components	118	131	78	59
Work in progress	232	310	180	163
Contracts in progress	2	-	-	-
Finished products	128	207	125	193
Consumable inventory	90	65	68	48
	570	**713**	**451**	**463**
Accumulated impairment	**307**	**444**	**198**	**303**

The amount of write-down of inventories recognised as an expense is R36m (2010: R24m) for the group and R43m (2010: R24m) for the company which is recognised in cost of sales.

17 Trade and other receivables

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Financial assets	573	614	479	504
Trade receivables	539	579	450	469
Trade receivables: Inter-group	-	-	7	11
Interest accrued	2	2	2	2
Other receivables	32	33	20	22
Non-financial assets	584	718	454	518
Amount due from customers for contract work	473	609	355	413
Prepayments and advances made	105	102	94	99
Other receivables	6	7	5	6
	1 157	**1 332**	**933**	**1 022**

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

17 Trade and other receivables (continued)

Impairment account reconciliation	2011			2010		
Individually impaired	Trade receivables Rm	Other receivables Rm	Total Rm	Trade receivables Rm	other receivables Rm	Total Rm
Group						
Balance at 1 April	92	-	92	130	1	131
Impairment losses recognised	7	-	7	6	-	6
Written off as uncollectible	(21)	-	(21)	(1)	(1)	(2)
Recovered during the year	(4)	-	(4)	(5)	-	(5)
Impairment losses reversed	(2)	-	(2)	(38)	-	(38)
	72	**-**	**72**	**92**	**-**	**92**
Company						
Balance at 1 April	90	-	90	127	1	128
Impairment losses recognised	7	-	7	6	-	6
Written off as uncollectible	(20)	-	(20)	(1)	(1)	(2)
Recovered during the year	(4)	-	(4)	(4)	-	(4)
Impairment losses reversed	(2)	-	(2)	(38)	-	(38)
	71	**-**	**71**	**90**	**-**	**90**

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm

18 Reinsurance asset

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Balance at 1 April	19	18		
Reinsurance income	1	1		
	20	**19**		

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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
19 Other financial assets and liabilities				
19.1 Other financial assets				
Derivatives	21	75	21	61
Foreign exchange contracts	16	36	16	22
Foreign exchange options	5	39	5	39
Embedded derivatives				
Foreign exchange embedded derivatives	-	2	-	2
	21	**77**	**21**	**63**
19.2 Other financial liabilities				
Derivatives				
Foreign exchange contracts	3	4	3	4
Embedded derivatives				
Foreign exchange embedded derivatives	36	93	28	44
Firm commitments	6	-	6	-
Foreign exchange contracts designate as fair value hedges	3	-	3	-
Foreign exchange options designate as fair value hedges	3	-	3	-
	45	**97**	**37**	**48**

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm

20 Cash and cash equivalents

	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Cash and short-term deposits (refer note 20.1)	920	1 038	865	976
Cash held on behalf of associates (refer note 20.2)	34	155	34	155
Bank overdraft (refer note 23)	-	(13)	-	(13)
	954	**1 180**	**899**	**1 118**

20.1 Cash and short-term deposits

	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Deposits				
Local call deposits	762	1 101	709	1 048
Cash in bank	192	92	190	83
Local banks	90	9	88	-
Foreign banks	102	83	102	83
	954	1 193	899	1 131
Less: Amount managed on behalf of associated companies (refer note 20.2)	(34)	(155)	(34)	(155)
	920	**1 038**	**865**	**976**

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits was 6.1% (2010: 7.1%). 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 Cash held on behalf of associates

	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Amount managed on behalf of associated companies (refer note 20.1)	**34**	**155**	**34**	**155**

The amount disclosed as cash held on behalf of associates, 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).

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
21 Issued capital				
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.

22 Non-controlling interests

	Group 2011 Rm	Group 2010 Rm
Balance at 1 April	(34)	31
Share of net loss of subsidiaries	(47)	(65)
Acquisition of additional ownership interest in subsidiary	81	-
	-	(34)

During the year, a holder of the non-controlling interest (Saab) in a subsidiary (DSA) exercised its share put option. Denel as a result had to buy back 20% shareholding of the issued shares of DSA. Original capital contribution and a nominal value of shares totaling R66m was repaid on 1 April 2011. Denel now holds 100% of the issued shares of DSA.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
23 Interest bearing loans and borrowings				
Non-current unsecured loan	101	101	-	-
Unsecured loan from non-controlling interest shareholders				

The unsecured loan represents borrowings of DSA from its the former non-controlling interest shareholder and bears no interest since 1 April 2010 (previously prime lending rate minus 2.0%). Originally the loan was repayable in February 2014 but due to the financial difficulty by the subsidiary, the amounts will be repaid when the business is in a position to do so. The former non-controlling interest shareholder did subordinate the loan in favour of other debt.

	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
Current interest bearing loans and borrowings	1 845	1 943	1 845	1 943
Bank overdraft	-	13	-	13
Commercial paper	1 811	1 775	1 811	1 775
Cash managed on behalf of associated companies	34	155	34	155
Total interest bearing loans and borrowings	**1 946**	**2 044**	**1 845**	**1 943**

The borrowings have been raised through the commercial paper programme and have a coupon value of R1 850m and are due for rollover at various stages during the next financial year. These borrowings are backed by government guarantees. 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 R2.2bn DMTN programme with the JSE. Under the programme Denel could raise senior and/or subordinated notes up to the facility limit of R2.2bn 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 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 R190m (2010: R200m). Refer to note 31.4 for fair value.

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
23 Interest bearing borrowings (continued)				
Weighted average effective interest rates				
Local unsecured loans (fixed rate)	6.6%	8.0%	6.6%	8.0%
Unsecured loan of non-controlling interest shareholders	0.0%	8.4%		
Short-term bank borrowings (floating rate)	7.6%	8.7%	7.6%	8.7%
Summary of maturity of borrowings				
Maturing within 12 months	1 845	1 943	1 845	1 943
Maturing within 12 to 60 months	101	101	-	-
	1 946	**2 044**	**1 845**	**1 943**
24 Provisions				
24.1 Non-current provisions	369	350	338	340
Contract risks and onerous contracts	123	76	92	66
Product warranty and recall	54	61	54	61
Site restoration	192	213	192	213
24.2 Current provisions	501	678	457	591
Contract risks and onerous contracts	179	237	179	202
Performance guarantees	36	65	36	65
Product warranty and recall	64	58	64	57
Site restoration	45	52	45	52
Insurance	11	6	-	-
Other	166	260	133	215
	870	**1 028**	**795**	**931**

Notes to the consolidated financial statements

for the year ended 31 March 2011

24 Provisions (continued)

Reconciliation

	Contract risks and onerous contacts Rm	Perfomance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Insurance provision Rm	Other Rm	Total Rm
Group							
2011							
Balance at 1 April	313	65	119	265	6	260	1 028
Realised	(239)	-	(24)	(2)	-	(179)	(444)
Unused amounts reversed	(10)	(29)	(5)	(48)	-	(77)	(169)
Unwinding of discount on provisions	16	-	1	22	-	-	39
Charged to the income statement	222	-	27	-	5	162	416
	302	**36**	**118**	**237**	**11**	**166**	**870**
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**
Company							
2011							
Balance at 1 April	268	65	118	265	-	215	931
Realised	(225)	-	(23)	(2)	-	(124)	(374)
Unused amounts reversed	(3)	(29)	(5)	(48)	-	(64)	(149)
Unwinding of discount on provisions	16	-	1	22	-	-	39
Charged to the income statement	215	-	27	-	-	106	348
	271	**36**	**118**	**237**	**-**	**133**	**795**
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**

24 Provisions (continued)

Contract risks and onerous contracts

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract.

Performance guarantees

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Provisions relating to insurance contracts

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

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 R3m (2009: R18m) for the group and R0m (2009: R2m) 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 R121m (2010: R122m) for the group and R90m (2010: R113m) 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 business 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 R16m (2010: R14m) 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 R27m (2010: R22m) for the group and for the company. Refer also to note 26.6.

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 R0m (2010: R1m).

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm

25 Trade and other payables

Financial liabilities	636	616	580	483
Trade payables	403	494	379	367
Trade payables: Inter-group			3	4
Interest accrued	-	1	-	1
Other accruals	233	121	198	111
Non-financial liabilities	22	18	22	17
Amounts due to customers for work invoiced, not yet performed	21	17	21	17
Other non-financial liabilities	1	1	1	-
	658	**634**	**602**	**500**

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

The following guarantees were issued by the group:

Advance payment guarantee	1 009	1 055	1 009	1 055
Performance guarantees	473	493	473	491
Guarantees to local authorities	7	4	7	4
Guarantees to banks for credit facilities	90	45	90	45
Other guarantees	45	90	45	90
Total of guarantees issued	1 624	1 687	1 624	1 685
Guarantees issued on behalf of associated companies	(218)	(253)	(218)	(253)
Advance payments guarantees	(91)	(165)	(91)	(165)
Performance guarantees	(63)	(82)	(63)	(82)
Guarantees to banks for credit facilities	(55)	-	(55)	-
Guarantees to local authorities	(2)	-	(2)	-
Sundry guarantees	(7)	(6)	(7)	(6)
	1 406	1 434	1 406	1 432

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm

26 Contingent liabilities (continued)

Recognised in the annual financial statements	(896)	(667)	(842)	(626)
Advance payments received	(860)	(602)	(806)	(561)
Provision for performance guarantees	(36)	(65)	(36)	(65)
	510	767	564	806

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 R16m (2010: R41m). 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. 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 R1.5bn and an estimated contract loss of approximately R1.4bn. This loss has not been raised as a provision following a written commitment received from the Shareholder stating its support including financial for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country.

Notes to the consolidated financial statements

for the year ended 31 March 2011

26 Contingent liabilities (continued)

26.4 Performance guarantee on behalf of a subsidiary

The company has provided a guarantee for the contract referred to in note 26.3 to the prime contractor, a European-based company. The company guaranteed that the subsidiary will discharge, in full, its contractual obligations and liabilities, including without limitation, 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 R36m (2010: R37m) at the group and company.

26.6 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 (2010: R32m) 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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

26 Contingent liabilities (continued)

The table below summarise the group's countertrade position:

	2011			2010		
	Export contracts Rm	Local defence contracts Rm	Total Rm	Export contracts Rm	Local defence contracts Rm	Total Rm
Countertrade obligation						
Total countertrade obligation	399	547	946	375	715	1,090
Obligation discharged	(12)	(485)	(497)	(13)	(631)	(644)
Outstanding obligation	387	62	449	362	84	446
To be settled by third party	-	(60)	(60)	-	(84)	(84)
Net obligation of the group	**387**	**2**	**389**	**362**	**-**	**362**
Penalties						
Maximum penalty for non-compliance	33	3	36	32	4	36
Third party obligation	-	(3)	(3)	-	(4)	(4)
Net group exposure	**33**	**-**	**33**	**32**	**-**	**32**
Guarantees issued						
Group issued	32	-	32	32	-	32
Third party guarantees	-	3	3	-	6	6
	32	**3**	**35**	**32**	**6**	**38**
Provision to settle obligation included in note 24	27	-	27	22	-	22

Notes to the consolidated financial statements

for the year ended 31 March 2011

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
27 Notes to the cash flow statement				
Reconciliation of profit with cash retained from operations				
Net profit/(loss) before tax	144	(222)	117	(357)
Adjusted for:	(559)	(38)	(293)	356
Loss/(profit) on disposal of property, plant and equipment [1]	7	2	8	(1)
Depreciation [1]	93	92	73	76
Amortisation of intangible assets [1]	15	9	15	9
Remeasurement of derivatives	53	(59)	39	(34)
Remeasurement of embedded derivatives	(55)	75	(14)	28
Remeasurement of firm commitments	6	-	6	-
Interest paid (refer note 7)	157	185	163	189
Interest received (refer note 7)	(37)	(46)	(48)	(81)
Dividend received	-	-	(113)	(72)
(Decrease)/increase in provisions	(196)	(205)	(174)	(180)
Impairment raised on property, plant and equipment [1]	2	12	(2)	12
Impairment raised on other intangible assets [1]	-	3	-	3
Impairment in subsidiaries [1]	-	-	243	434
Share of profit of associated companies (refer note 13)	(115)	(79)	-	-
Fair value adjustment of investment properties (refer note 4)	(42)	(27)	(42)	(27)
Pension fund surplus apportionment	(463)	-	(463)	-
Pension holiday	16	-	16	-
Operating loss before changes in net current assets	(415)	(260)	(176)	(1)
Changes in net current assets:	278	126	139	88
Decrease in inventories	143	166	12	37
Decrease in receivables	175	120	89	43
Increase in reinsurance asset	(1)	(1)	-	-
(Decrease)/increase in trade and other payables	(39)	(159)	38	8
Cash utilised in operations	**(137)**	**(134)**	**(37)**	**87**

[1] Refer note 3

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	Group 2011 Rm	Group 2010 Rm	Company 2011 Rm	Company 2010 Rm
28 Capital commitments				
Approved and contracted for	30	18	23	18
Land and buildings	-	5	-	5
Plant and machinery	24	10	17	10
Computer equipment	6	3	6	3
Approved but not contracted for	7	22	7	16
Plant and machinery	7	12	7	6
Computer equipment	-	10	-	10
	37	**40**	**30**	**34**

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					
2011					
Less than one year	63	1	1	3	68
Between one and five years	31	1	4	2	38
More than five years	-	10	-	-	10
	94	**12**	**5**	**5**	**116**
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**
Company					
2011					
Less than one year	63	1	1	3	68
Between one and five years	31	-	4	-	35
	94	**1**	**5**	**3**	**103**
2010					
Less than one year	66	-	2	2	70
Between one and five years	138	-	3	4	145
	204	**-**	**5**	**6**	**215**

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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 R1m 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.

Business entities within the group

Denel (Pty) Ltd is the ultimate parent company of the group. The company advanced loans to these business 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.

Terms and conditions of transactions with related parties

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sales and purchase of goods and services with the other related parties of the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

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	National government Rm	Major national public entities Rm	Between the Company and its Subsidiaries Rm	Associated companies Rm	Other related parties Rm

30 Related parties (continued)

The following transactions were carried out with related parties:

	National government Rm	Major national public entities Rm	Between the Company and its Subsidiaries Rm	Associated companies Rm	Other related parties Rm
Group					
2011					
Purchases of goods	5	-	-	180	-
Sales of goods	1 231	23	-	65	-
Services rendered	606	3	-	15	-
Services received	4	22	-	45	21
Lease payments	-	63	-	-	-
Lease received	2	-	-	32	-
Guarantees issued to related parties	135	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	218	-
Guarantees issued to third parties by related parties	1 850	-	-	-	-
Interest received	-	1	-	3	-
Interest paid	-	-	-	1	-
Dividend received	-	-	-	33	-
Outstanding balances payable	4	1	-	80	-
Outstanding balances receivable	342	5	-	111	-
Advance payments received	468	-	-	-	-
Advance payments made	-	-	-	20	-
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	-	-	-	-

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30 Related parties (continued)

Company

	National government Rm	Major national public entities Rm	Between the Company and its Subsidiaries Rm	Associated companies Rm	Other related parties Rm
2011					
Purchases of goods	4	-	14	180	-
Sales of goods	1 115	23	3	53	-
Services rendered	364	1	47	15	-
Services received	4	22	15	45	-
Lease payments	-	63	-	-	-
Lease received	2	-	15	32	-
Guarantees issued to related parties	62	73	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	218	-
Guarantees issued to third parties by related parties	1 850	-	-	-	-
Interest received	-	1	14	3	-
Interest paid	-	-	5	1	-
Dividend received	-	-	80	33	-
Outstanding balances payable	4	-	3	80	-
Outstanding balances receivable	226	5	7	110	-
Advance payments received	445	-	-	-	-
Advance payments made	-	-	-	20	-
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	-

Post-employment benefit plans (refer note 33)

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	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
30 Related parties (continued)				
Compensation paid to key management personnel (including information in the *directors'* report)				
Short-term employee benefits	33	30	29	25
Post-employee benefits	1	2	1	2

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
	34	32	30	27

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
- Recomment to the Board for approval of the 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.

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 FitchRatings rating. Counterparties are approved by the group audit and risk committee and any rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with counterparties, usually banks with F1 and F1+ short-term ratings, AA long-term ratings and a minimum of R1bn in capital. Treasury is allowed to invest 20.0% of its portfolio with a counterparty that is F1+ rated and 15.0% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the group chief executive officer.

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31 Financial risk management (continued)

Credit exposure and concentration of credit risk

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the group's concentration of risk for all non-derivative financial assets:

	2011			2010		
	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm
Group						
Trade receivables	314	225	539	259	320	579
Government and related entitles	256	137	393	100	195	295
Non-government entities	58	88	146	159	125	284
Sundry receivables	24	8	32	33	-	33
Government and related entitles	9	-	9	22	-	22
Non-government entities	15	8	23	11	-	11
Interest receivable (non-government)	2	-	2	2	-	2
Loans and receivables	562	-	562	10	-	10
Government and related entitles	5	-	5	10	-	10
Non-government entities	557	-	557	-	-	-
	902	**233**	**1 135**	**304**	**320**	**624**
Company						
Trade receivables	287	163	450	228	241	469
Government and related entitles	232	124	356	100	182	282
Non-government entities	55	39	94	128	59	187
Sundry receivables	20	-	20	22	-	22
Government and related entitles	6	-	6	12	-	12
Non-government entities	14	-	14	10	-	10
Interest receivable (non-government)	2	-	2	2	-	2
Loans and receivables	562	-	562	10	-	10
Government and related entitles	5	-	5	10	-	10
Non-government entities	557	-	557	-	-	-
	871	**163**	**1 034**	**262**	**241**	**503**

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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:

	2011				2010			
	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	539	72	(72)	539	572	99	(92)	579
Not past due, not impaired	405			405	381			381
Not past due, but impaired		-	-	-		1	(1)	-
Past due								
Less than 30 days	79	58	(58)	79	59	2	(2)	59
30 to 60 days	36	-	-	36	29	-	-	29
61 to 90 days	8	-	-	8	63	12	(12)	63
More than 90 days	11	14	(14)	11	40	84	(77)	47
Other receivables	32	-	-	32	33	-	-	33
Not past due, not impaired	24			24	19			19
Not past due, but impaired	-	-	-	-	-	-	-	-
Past due								
Less than 30 days	5	-	-	5	10	-	-	10
30 to 60 days	-	-	-	-	-	-	-	-
61 to 90 days	1	-	-	1	-	-	-	-
More than 90 days	2	-	-	2	4	-	-	4
Interest accrued								
Not past due, not impaired	2	-	-	2	2	-	-	2
Loans and other receivables	562	-	-	562	10	-	-	10
Not past due, not impaired								
Current portion	191	-	-	191	5	-	-	5
Non-current portion	371	-	-	371	5	-	-	5
	1 135	72	(72)	1 135	617	99	(92)	624

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31 Financial risk management (continued)

	2011				2010			
	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
Company								
Trade receivables	450	71	(71)	450	461	98	(90)	469
Not past due, not impaired	333			333	328			328
Not past due, but impaired		-	-	-		1	(1)	-
Past due								
Less than 30 days	69	58	(58)	69	45	1	(1)	45
30 to 60 days	30	-	-	30	17	-	-	17
61 to 90 days	8	-	-	8	54	12	(12)	54
More than 90 days	10	13	(13)	10	17	84	(76)	25
Other receivables	20	-	-	20	22	-	-	22
Not past due, not impaired	15	-	-	15	18	-	-	18
Not past due, but impaired								
Past due	4	-	-	4	1	-	-	1
Less than 30 days	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-
61 to 90 days	1	-	-	1	3	-	-	3
More than 90 days								
Interest accrued								
Not past due, not impaired	2	-	-	2	2	-	-	2
Loans and other receivables	562	-	-	562	10	-	-	10
Not past due, not impaired								
Current portion	191	-	-	191	5	-	-	5
Non-current portion	371	-	-	371	5	-	-	5
	1 034	71	(71)	1 034	495	98	(90)	503

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Security held over non-derivative financial assets				
Irrevocable confirmed Letters of Credit				
• Confirmed by local banks	13	-	13	-
• Confirmed by foreign banks	26	-	26	-
Unconfirmed Letters of Credit	4	21	4	21
	43	21	43	21

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 30 September 2012.

Surplus funds are deposited in liquid assets (i.e. negotiable certificates of deposits and call deposits) (refer note 20).

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Undrawn credit facilities	190	200	190	200

The credit 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 ensure liquidity.

Exposure to liquidity risk

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

	Contractual undiscounted cash flows					
	Carrying amount Rm	Total cash flows Rm	Less than 3 months Rm	Between 3 and 12 months Rm	Between 1 and 5 years Rm	More than 5 years Rm
Group						
2011						
Interest bearing borrowings	1 811	1 849	25	1 824	-	-
Non interest bearing borrowings	101	101	-	-	101	-
Loans from associated companies	34	34	34	-	-	-
Trade and other payables	636	636	536	100	-	-
Derivative financial liabilities	3	3	1	2	-	-
	2 585	2 623	596	1 926	101	-
2010						
Interest bearing borrowings	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	-

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31 Financial risk management (continued)

		Contractual undiscounted cash flows				
	Carrying amount	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
	Rm	Rm	Rm	Rm	Rm	Rm
Company						
2011						
Interest bearing borrowings	1 811	1 849	25	1 824	-	-
Loans from associated companies	34	34	34	-	-	-
Trade and other payables	580	580	505	75	-	-
Derivative financial liabilities	3	3	1	2	-	-
	2 428	**2 466**	**565**	**1 901**	**-**	**-**
2010						
Interest bearing borrowings	1 788	1 863	313	1 550	-	-
Loans from associated companies	155	155	155	-	-	-
Trade and other payables	483	483	383	100	-	-
Derivative financial liabilities	4	4	1	2	1	-
	2 430	**2 505**	**852**	**1 652**	**1**	**-**

31.3 Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect the group's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Divisions and Subsidiaries

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

Treasury

Treasury is responsible for reporting to the group audit and risk committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the Group FD and Executive Committee on a weekly and monthly basis respectively.

A significant element of the market risk encountered arises from financial instruments that are managed centrally within the Treasury function of the group. These include more complex instruments used for hedging purposes.

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to upward interest rate movements on borrowings. 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.

31 Financial risk management (continued)

Currency risk (continued)

At the reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:

	Group		Company	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Fixed rate instruments				
Commercial paper	1 811	1 775	1 811	1 775
Loans and other receivables	5	10	5	10
Variable rate instruments				
Cash and short-term deposits	920	1 038	865	976
Cash held on behalf of associates	34	155	34	155
Loans and other receivables	557	-	557	-
Unsecured loan from non-controlling interest shareholders	-	101		
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, therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the reporting date would have increased/decreased profit or loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit or loss.

Cash and cash equivalents	8	5	7	6

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

Currency risk

Currency risk arises from the movement in foreign exchange rates. The group's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. Foreign exchange embedded derivatives are recognised when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce. No speculating in foreign currency is allowed within the group.

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 CFC accounts representing proceeds received and awaiting conversion to Rand are hedged by foreign currency derivatives.

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31 Financial risk management (continued)

Currency risk (continued)

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

	2011			2010		
	US Dollar (USD) Million	Euro (EUR) Million	Sterling (GBP) Million	US Dollar (USD) Million	Euro (EUR) Million	Sterling (GBP) Million
Group						
Assets	60	6	-	85	6	1
Trade receivables	16	5	-	35	6	1
Controlled Foreign Currency accounts (CFC)	15	-	-	4	-	-
Embedded derivatives (export sales)	16	-	-	46	-	-
Firm commitment (export sales)	13	1	-	-	-	-
Liabilities	(1)	(4)	-	(1)	(1)	-
Trade payables	-	(2)	-	(1)	(1)	-
Firm commitment (import)	(1)	(2)	-	-	-	-
Gross balance sheet exposure	59	2	-	84	5	1
Forecast transactions: sales	2	1	-	17	1	1
Forecast transactions: purchases	(2)	-	-	-	(1)	-
Gross exposure	59	3	-	101	5	2
Forward Exchange Contracts						
Export sales	(20)	(11)	(1)	(29)	(7)	(1)
Import	3	4	-	1	5	-
Foreign Currency Options (Zero Cost Collars)						
Export sales	(11)	-	-	(13)	(9)	-
Net exposure	**31**	**(4)**	**(1)**	**60**	**(6)**	**1**

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31 Financial risk management (continued)

31.3 Market Risk (continued)

	2011			2010		
	US Dollar (USD) Million	Euro (EUR) Million	Sterling (GBP) Million	US Dollar (USD) Million	Euro (EUR) Million	Sterling (GBP) Million
Company						
Assets	48	5	-	56	1	1
Trade receivables	10	5	-	30	1	1
Controlled Foreign Currency accounts (CFC)	14	-	-	2	-	-
Embedded derivatives (export sales)	11	-	-	24	-	-
Firm commitment (export sales)	13	-	-	-	-	-
Liabilities	(1)	(4)	-	(1)	-	-
Trade payables	-	(2)	-	(1)	-	-
Firm commitment (import)	(1)	(2)	-	-	-	-
Balance sheet exposure	47	1	-	55	1	1
Forecast transactions: sales	2	1	-	17	1	1
Forecast transactions: purchases	(2)	-	-	-	(1)	-
Gross exposure	47	2	-	72	1	2
Forward Exchange Contracts						
Export sales	(20)	(11)	(1)	(27)	(2)	(1)
Import	3	4	-	1	4	-
Foreign Currency Options (Zero Cost Collars)						
Export sales	(11)	-	-	(13)	(9)	-
Net exposure	19	(5)	(1)	33	(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:

	2011			2010		
	US Dollar (USD) Rm	Euro (EUR) Rm	Sterling (GBP) Rm	US Dollar (USD) Rm	Euro (EUR) Rm	Sterling (GBP) Rm
Group	6	2	-	22	(3)	1
Company	6	1	-	12	(3)	1

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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 19.1.

	2011			2010		
	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)	3	24	24	1	10	9
Euro (EUR)	4	37	35	5	56	50
Sterling (GBP)	-	3	3	-	3	3
Other	-	-	-	-	1	1
	7	64	62	6	70	63
Sales contracts						
US Dollar (USD)	20	139	128	29	228	216
Euro (EUR)	11	105	102	7	85	65
Sterling (GBP)	1	9	9	1	13	10
Singapore Dollar (SGD)	-	2	2	-	-	-
Swiss Franc (CHF)	1	8	8	-	-	-
Other	-	-	-	-	6	5
	33	263	249	37	332	296
The following foreign exchange options existed at 31 March:						
Sales contracts						
US Dollar (USD)	11	75	80	13	111	121
Euro (EUR)	-	-	-	9	116	145
	11	75	80	22	227	266

All currency options mature within one year.

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 19.1.

	2011				2010			
	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
Maturity table								
Foreign exchange contracts								
Purchase contracts								
US Dollar (USD)	3	-	-	3	1	-	-	1
Euro (EUR)	4	-	-	4	4	1	-	5
Sales contracts								
US Dollar (USD)	14	6	-	20	28	1	-	29
Euro (EUR)	10	-	-	10	7	-	-	7
Sterling (GBP)	1	-	-	1	1	-	-	1
Foreign exchange options								
Sales contracts								
US Dollar (USD)	8	3	-	11	-	-	-	-

Foreign exchange embedded derivatives and firm commitment

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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

	2011			2010		
	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						
Embedded derivatives						
US Dollar (USD)	16	140	119	46	344	253
Firm commitment						
US Dollar (USD)	13	89	89	-	-	-
Euro (EUR)	1	9	9	-	-	-
Sterling (GBP)	-	6	6	-	-	-
Swiss Franc (CHF)	1	9	9	-	-	-
		113	113		-	-
Import transactions						
Firm commitment						
US Dollar (USD)	-	1	1	-	-	-
Euro (EUR)	2	11	11	-	-	-
		12	12		-	-

	2011				2010			
	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
Maturity table								
Export transactions								
Embedded derivatives								
US Dollar (USD)	10	4	2	16	40	5	1	46

Firm commitment

The maturity of all firm commitments is within one year.

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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

Commodity swap derivatives

The fair value of the commodity swap derivatives are disclosed in note 19.2

	2011			2010		
	Units in ton	Local currency amount Rm	Fair value Rm	Units in ton	Local currency amount Rm	Fair value Rm
The following commodity swap contracts existed at 31 March:						
Copper swaps	254	17	17	-	-	-
Zinc swaps	65	1	1	-	-	-
		18	18		-	-

	2011				2010			
	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	230	24	-	254	-	-	-	-
Zinc swaps	57	8	-	65	-	-	-	-

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Notes	Loans and receivables Rm	Liabilities at amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
Group						
2011						
Financial assets						
Loans and receivables	14	457			457	457
Associated companies: Loans receivable	14	105			105	105
Trade and other receivables	17	573			573	573
Derivative financial assets	19.1			21	21	21
Cash and cash equivalents	20.1	920			920	920
Cash held on behalf of associates	20.2	34			34	34
Financial liabilities						
Interest bearing borrowings	23		(1 811)		(1 811)	(1 813)
Non interest bearing borrowings	23		(101)		(101)	(101)
Associated companies: Borrowing	23		(34)		(34)	(34)
Trade and other payables	25		(636)		(636)	(636)
Derivative financial liabilities	19.2			(45)	(45)	(45)
		2 089	**(2 582)**	**(24)**	**(517)**	**(519)**
2010						
Financial assets						
Loans and receivables	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
Cash held on behalf of associates	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)**

Notes to the consolidated financial statements

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31 Financial risk management (continued)

	Notes	Loans and receivables Rm	Liabilities at amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
Company						
2011						
Financial assets						
Loans and receivables	14	457			457	457
Associated companies: Loans receivable	14	105			105	105
Trade and other receivables	17	479			479	479
Derivative financial assets	19.1			21	21	21
Cash and cash equivalents	20.1	865			865	865
Cash held on behalf of associates	20.2	34			34	34
Financial liabilities						
Interest bearing borrowings	23		(1 811)		(1 811)	(1 813)
Associated companies: Borrowing	23		(34)		(34)	(34)
Trade and other payables	25		(580)		(580)	(580)
Subsidiaries: Borrowings			(62)		(62)	(62)
Derivative financial liabilities	19.2			(37)	(37)	(37)
		1 940	**(2 487)**	**(16)**	**(563)**	**(565)**
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
Cash held on behalf of associates	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)**

Notes to the consolidated financial statements

for the year ended 31 March 2011

31 Financial risk management (continued)

Determination of fair values

Non-derivative financial instruments

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest bearing borrowings. Where there is no quoted market price a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using discounted cash flow method at market related interest rate. All other financial assets and liabilities carrying amount approximates fair value.

Derivative financial instruments

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

Fair value hierarchy

The 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 loss making contracts and inadequate orders to optimise the labour and capital intensive operations throughout the group. A turnaround strategy was developed during 2006 which was approved by the key stakeholders, including the Executive Authority and the Cabinet. This required the Shareholder to inject R5.2bn for the successful implementation of the strategy.

Since the approval of the strategy, the group has been recapitalised by a total of R3.5bn. The board has since requested a recapitalisation payment of about R2bn from the Shareholder. The Shareholder has in the interim provided a government guarantees totalling R1.85bn to enable the group to raise borrowings.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times.

Notes to the consolidated financial statements

for the year ended 31 March 2011

32 Capital management (continued)

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 Denel Pension Fund (DenPen), a defined benefit plan, became a pensioners alone fund on 1 September 2010 and Denel withdrew as a principal employer of the fund. Refer to the *directors' report* and note 14.2 for further details.

The group will make no further contributions to this defined benefit pension plan.

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 2011 indicated a surplus of R478m (2010: R567m).

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 position of the fund, the group only contributes to fund when a member goes on early retirement and it is, therefore, unable to determine the contribution for 2012.

During the prior year a buy-out offer was made to all members and 55% accepted the offer. The group is exploring futher options to limit the financial risk. 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.

Notes to the consolidated financial statements

for the year ended 31 March 2011

33 Pension and other post-retirement obligations (continued)

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

	Denel Pension Fund		Denel Medical Benefit Trust	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Change in defined benefit funded obligation				
Present value of funded obligations at 1 April	4 129	3 278	681	1 323
Service cost benefits earned during the year	1	2	12	26
Interest cost on projected benefit obligation	186	286	62	99
Actuarial (gain)/ losses	(651)	798	(53)	14
Benefits paid	(120)	(235)	(39)	(37)
Settlement cost	(3 545)	-	-	-
Liability buy-out	-	-	10	(744)
Present value of funded obligations at 31 March	-	4 129	673	681
Change in plan assets				
Fair value of plan assets at 1 April	5 129	4 493	1 248	1 768
Expected return on plan assets	245	374	126	175
Actuarial losses/(gains)	(277)	496	(197)	352
Employer and member contributions	-	1	3	5
Benefits paid	(120)	(235)	(39)	(37)
Settlement cost	(4 514)	-	-	-
Surplus apportionment to the company	(463)	-	-	-
Liability buy-out	-	-	10	(1 015)
Fair value of plan assets at 31 March	-	5 129	1 151	1 248
Fund excess	-	1 000	478	567
Excess not recognised	-	1 000	478	567
Unrecognised actuarial gains	-	-	-	-
Net benefit expenses				
Service cost	1	2	12	26
Interest cost	186	286	62	99
Expected return on plan assets	(245)	(374)	(126)	(175)
Net actuarial loss recognised during the year	-	-	(53)	14
Income	(58)	(86)	(105)	(36)

Notes to the consolidated financial statements

for the year ended 31 March 2011

33 Pension and other post-retirement obligations (continued)

	Denel Pension Fund		Denel Medical Benefit Trust	
	2011 %	2010 %	2011 %	2010 %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	8.50	9.75	8.97	10.06
Future salary increase	6.25	6.50		
Future pension increase	6.30	6.60		
Discount rate	8.25	9.25		
Inflation rate	5.25	5.50		
Expected medical inflation				
From 1 April 2010 to 1April 2012			6.97	10.06
After 1 April 2012			6.97	8.06

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	719	1 161
Retired members	-	2 890	1 669	1 382
The beneficiary members who accepted the buy-out offer are as follows:				
Active members				1527
Retired members				1351

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
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)
Plan assets	-	5 129	4 493	4 889	5 336
Surplus	-	1 000	1 215	1 641	2 093
Experience adjustments on plan liabilities	810	971	110	278	19
Experience adjustments on plan assets	(277)	(496)	(572)	(324)	626
Denel Medical Benefit Trust					
Defined benefit obligation	(673)	(681)	(1 323)	(1 076)	(1 106)
Plan assets	1 151	1 248	1 768	1 894	1 881
Surplus	478	567	445	818	775
Experience adjustments on plan liabilities	(5)	(33)	10	(10)	18

Notes to the consolidated financial statements

for the year ended 31 March 2011

33 Pension and other post-retirement obligations (continued)

	2011		2010	
	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
A 2.0% change in assumed healthcare cost trend rates would have the following effects:				
Effect on defined benefit obligation	(204)	166	(177)	651

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, OTR 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

Non-core: Property divisions and property subsidiaries

Corporate Services: Corporate activities mainly consist of corporate office and treasury functions and those that 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 (Pty) Ltd and DTA.

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 4: *Business entity profiles* on page 42.

Notes to the consolidated financial statements

for the year ended 31 March 2011

34 Segment reporting (continued)

	Aerostructures	Aerospace systems	Aviation	Land Systems	Munitions	Non-core and Corporate Services	Consolidation entries	TOTAL
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2011								
Segment revenue	281	1 002	736	705	501	321	(294)	3 252
Sales to external customers	267	960	676	704	494	151		3 252
Inter-group sales	14	42	60	1	7	170	(294)	-
Segment result	(223)	(48)	(155)	26	14	(57)	129	(314)
Pension fund surplus apportionment								463
Finance charges								(120)
Share of results of associated companies								115
Taxation								(33)
Loss for the year								111
Segment assets	351	991	544	577	573	4 982	(2 988)	5 030
Deferred tax assets								8
Total assets								5 038
Segment liabilities	760	874	634	453	74	3 274	(1 690)	4 379
Deferred tax liabilities								5
Total liabilities								4 384
Cash flows from:								
Operating activities	(99)	121	103	(24)	26	10	41	178
Investing activities	(5)	(62)	(3)	(11)	(13)	(181)	74	(201)
Financing activities	75	29	19	-	-	(171)	(155)	(203)
Capital expenditure	6	53	3	11	13	2	-	88
Impairment losses	35	1	43	3	21	248	(219)	132
Impairment losses reversed	(65)	(4)	(12)	(8)	(18)	(10)	-	(117)
Depreciation/amortisation in respect of segment assets	15	37	11	13	15	17	-	108
Revenue from major customers								
SA National Government	116	501	619	474	120	9	-	1 839
Significant non-cash items:								
Fair value adjustment	-	-	-	-	-	42	-	42
(Profit)/loss on disposal of property, plant and equipment	(1)	8	-	-	-	-	-	7

Notes to the consolidated financial statements

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34 Segment reporting (continued)

	Aerostructures Rm	Aerospace systems Rm	Aviation Rm	Land Systems Rm	Munitions Rm	Non-core and Corporate Services Rm	Consolidation entries Rm	TOTAL Rm
2010 Restated								
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	(3 107)	5 012
Deferred tax assets								8
Total assets								5 020
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)

Notes to the consolidated financial statements

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35 Subsidiaries and associated companies

The following unlisted companies are subsidiaries or associated companies of Denel (Pty) Ltd and its subsidiaries:	2011 Share capital issued[2] Rm	2011 Share investment by Denel (Pty) Ltd[2] Rm	2011 Amounts owing to/(by) Denel (Pty) Ltd[2] Rm	2011 Effective percentage shareholding %	2010 Share capital issued[2] Rm	2010 Share investment by Denel (Pty) Ltd[2] Rm	2010 Amounts owing to/(by) Denel (Pty) Ltd[2] Rm	2010 Effective percentage shareholding %
Shareholding by holding company								
Bonaero Park (Pty) Ltd	-	-	-	100	27	100	(104)	100
Denel International Ltèe (incorporated in Mauritius)	-	-	-	100	-	-	60	100
Denel Personnel Solutions (Pty) Ltd	-	-	(44)	100	-	-	(42)	100
Denel Properties (Pty) Ltd	-	-	-	100	-	-	41	100
Denel Saab Aerostructures (Pty) Ltd	789	789	536	100	789	723	432	80
Densecure (Pty) Ltd	8	8	-	100	8	8	-	100
La Forge Manufacturing (Pty) Ltd	-	-	85	100	-	-	85	100
Mechem (Pty) Ltd	63	63	(18)	100	63	63	(20)	100
Denel Do Brasil Tecnologia Aplicada E Participacoes Limitada (incorporated in Brazil)	-	-	-	1	-	-	-	1
Community Pension Informatics (Pty) Ltd	-	-	-	100	-	-	-	100
Total investment		860	559			894	452	
Aggregated amounts less than R0.5m [2]		-	-			-	-	
Less: Accumulated impairment of investment		(789)	(621)			(723)	(619)	
Net investment of Denel (Pty) Ltd		**71**	**(62)**			**171**	**(167)**	
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	105	49		371	-	49
Total investment		477	105			477	-	-
Less: Accumulated impairment of investment		-	-			-	-	-
Net investment of Denel (Pty) Ltd		**477**	**105**			**477**	**-**	

	2011 Rm	2010 Rm
Aggregated loss of subsidiaries	(148)	(311)

1 Shares are not held by the group but effective management control is exercised in these business entities
2 Amounts smaller than R1m due to rounding are not reflected against the business entities but in aggregate on this page

Section seven
Information Services

Glossary

Abbreviation	Full Description
(Pty) Ltd	(Proprietary) Limited
AAD	Africa Aerospace and Defence
ABET	Adult Basic Education and Training
ADS	African Defence Systems
AGM	Annual General Meeting
AIDS	Acquired Immune Deficiency Syndrome
AMD	South African Aerospace, Maritime And Defence Industries Association
AMO	Aviation Maintenance Organisation
AUD	Australian Dollar
Aviation	Denel Aviation
BAC	Battle Area Clearance
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
Board	Board of Directors
CAR	Avifaunal Road Counts
Carl Zeiss	Carl Zeiss Optronics (Pty) Ltd
CCMA	Commission of Conciliation, Mediation And Technology Arbitration
CCRs	Constant Current Regulators
CEO	Chief Executive Officer
CFC	Controlled Foreign Currency
CFO	Chief Financial Officer
CODM	Chief Operating Decision-Maker Committee
CoGP	Code of Good Practice
CRM	Customer Relationship Management
CSANDF	Chief of South African National Defence Force
CSDP	Competitive Supplier Development Policy
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CVO	Contract Variation Order
CZO	Carl Zeiss Optronics (Pty) Ltd
DCS	Department of Correctional Services
DENIPROP	Denel Property Group
DENPEN	Denel Pension Fund
DERI	Defence Evaluation and Research Institute
DFIR	Disabling Injury Frequency Rate
DIP	Defence Industrial Participation
DIRCO	Department of International Relations and Cooperations
DISS	Denel Integrated Systems Solutions
DLS	Denel Land Systems
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DPE	Department of Public Enterprises
DPS	Denel Personnel Solutions (Pty) Ltd
DRC	Democratic Republic of the Congo
DSA	Denel Saab Aerostructures (Pty) Ltd
DST	Department of Science and Technology
DTA	Denel Technical Academy
DTD	Defence Technology Division
DTI	Department of Trade and Industry

Abbreviation	Full Description
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
EXCO	Executive Committee
FD	Financial Director
FET	Further Education and Training
FIFO	First in First Out
FSB	Financial Services Board
GBADS	Ground Based Air Defence System
GBP	British Sterling Pound
GCC	Guarantee Certification Committee
GCEO	Group Chief Executive Officer
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GM	General Manager
Government	South African Government
GRI	Global Reporting Initiative
HG	Higher Grade
HIRA	Health Industry Representatives Association
HIV	Human Immunodeficiency Virus
IAS	International Accounting Standards
ICT	Information and Communications
ICV	Infantry Combat Vehicle
IDEAS	Pakistan Defence Exhibition
IDEX	Uae Defence Exhibition
IEM	Integrated Environmental Management
IFRIC	International Financial Reporting Interpretations
IFRS	International Financial Reporting Standards Companies Act South African Companies Act, No.61 of 1973
IGG	International Golden Group
Inc.	Incorporated
IP	Intellectual Property
IPAP2	Industrial Policy Action Plan
ISO	International Organisation for Standardisation
IT	Information Technology
IUCN	International Union for Conservation of Nature
JIBAR	Johannesburg Interbank Agreed Rate
JIPSA	Joint Initiative on Prior Skills Acquisition
JIT	Just In Time

Abbreviation	Full Description
KPI	Key Performance Indicator
KwH	Kilowatt Hour
LAAD	Latin American Aerospace Defence Exhibition
LCD	Liquid Crystal Display
LEDS	Land Electronic Defence System
LIBDEN	Libyan Defence Exhibition
LRA	Labour Relations Act
LTIFR	Lost Time Injury Frequency Rate
MDS	Mechem Deflagration System
Mechem	Mechem (Pty) Ltd and Mechem Countermining (Incorporated In Bosnia)
MEDDS	Mechem Explosives and Drug Detection System
MEIBC	Metal Engineering Industrial Bargaining Council
ML	Megaliter
MIS	Management Information System
Missiles	Denel Missiles
MoD&MV	Ministry of Defence and Military Veterans
MPV	Mine Protected Vehicle
MRO	Maintenance, Repair and Overhaul
MwH	Megawatt Hour
NADCAP	National Aerospace and Defense Contractors Accreditation Program
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organisation
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
NERA	National Empowerment Rating Agency
NGP	National Growth Path
NIHL	Moise Induced Hearing Loss
No.	Number
NOx	Nitrogen Oxides Act
NQF	National Qualifications Framework
NT	National Treasury
NUMSA	National Union of Metal Workers of South Africa
OCBM	O-chlorobenzylidene melanonitrite
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health Safety Assessment Series
ORC	Overberg Review Committee
OSHS	Occupational Safety and Health Services
OTB	Overberg Toetsbaan
OTR	Overberg Test Range
P&R	Personnel and Remuneration
PAW	Personal Area Weapon
PDPs	Personal Development Plans
PFMA	Public Finance Management Act, No. 1 Of 1999
PM	Particle Matter
PMP	Pretoria Metal Pressings
PMS	Performance Management System
PwC	Pricewaterhousecoopers
R&D	Research and Development
Rand	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd

Abbreviation	Full Description
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
SADC	Southern African Developement Community
SADI	South African Defence Related Industries
SAEWA	South African Equity Workers Association
SAICA	South African Institute of Chartered Accountants
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SAWomEng	South Africa Women in Engineering
SBL	School of Business Leadership
SCAMP	Strategic Capital Acquisition Master Plan
SED	Socio-Economic Development
SET	Science, Engineering and Technology
SETA	Sector Education and Training Authority
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
SPCA	Society for the Prevention of Cruelty to Animals
SPP	Specialised Protein Products (Pty) Ltd
STC	Secondary Tax on Companies
TETA	Transport Education Training Authority
TMA	Turbomeca Africa (Pty) Ltd
TOPP	Training Outside Public Practice
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

Contact Information

DENEL (PROPRIETARY) LIMITED
Registration number 1992/001337/07

The registered office of Denel (Pty) Ltd is situated at:

Denel Building
Nellmapius Drive
Irene
Gauteng
Republic of South Africa

The postal address of Denel (Pty) Ltd is:

PO Box 8322
Centurion
0046
Republic of South Africa

Other contact details are:

Telephone	+27 12 671 2700
Fax	+27 12 671 2793
Fraud hotline	+27 800 204 880
Email	marketing@denel.co.za
Website	www.denel.co.za

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

• Ms Patience Mushungwa	Group Executive: Human Resources and Transformation
• Mr Themba Zwelibanzi	Group Risk Manager
• Mr Gawie van Zyl	Group Financial Manager
• Ms Nicolette Weideman	Group Tax Accountant

Designed and Produced by:
Puisano Business Development Group (Pty) Ltd
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Tel: +27 861 110 110   www.puisano.com
Creative Director: Philip Jean Geel
Graphic Designers: Marc Everitt and Mothusi Leotela

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