INTEGRATED REPORT 2013

DENEL

A reliable defence, security and technology solutions partner

ABOUT THIS REPORT

This integrated report presents a transparent, comprehensive and comparable view of Denel's financial, operating, social and sustainability performance for the year ended 31 March 2013, as well as the group's outlook to a broad range of stakeholders. This report further aims to highlight opportunities and challenges faced by the group, as well as planned actions to address issues. The planned actions take into account business priorities, risks and recommendations made by stakeholders.

This report takes cognisance of the integrated reporting requirements of the King III report on corporate governance, as is expected of a responsible organisation committed to good governance and accountability. The *sustainable development* section is based on the requirements of one of the globally recognised best reporting practices framework, the Global Reporting Initiative (GRI). Denel has declared a C application level in terms of GRI. This integrated report is available on Denel's website (www.denel.co.za)

A list of abbreviations and acronyms is provided on pages 202 to 203. In line with Denel's inclusive approach, corporate contact details are provided on page 204.

CONTENT


DENEL

1 GROUP OVERVIEW

GOVERNANCE AND OWNERSHIP

Denel is a proudly South African state-owned company reporting to the Minister of Public Enterprises, who appoints an independent board of directors to, amongst others, provide strategic direction and oversight to the Denel group. The executive management is responsible for the day-to-day management of the company. The company has mature governance processes as detailed on pages 56 to 71.

ROLE OF DENEL

Denel provides military independence and security of supply to the country as it develops high-end technology, conducts research and development, as well as is involved in advanced manufacturing of niche defence products and solutions, whilst also supplying global markets.

Denel provides a wide range of sophisticated services and solutions that enhance the value of its products. These solutions are designed to meet unique user requirements and provide full lifecycle support, which reduce the cost of ownership. Denel products include combat turrets, artillery and vehicle systems, missiles, command and control, maintenance, repair and overhaul of aircraft (MRO), avionics upgrades, testing of airborne systems, munitions, development and design of aerostructures components, as well as humanitarian services, including demining.

Denel plays a significant role in industrial development through its active research and development (R&D) programmes, manufacturing and maintenance activities, well-defined infrastructure and strong human capital base. The research, design, development, integration, qualification, certification and industrialisation are done primarily in-house, with significant elements of production outsourced to the broader South African (SA) manufacturing and defence industries. Many innovative applications have been leveraged from the defence technology base, amongst others to improve rail safety, crime prevention, surveillance, protection of assets, mine safety management, mining drill bits and commercial brass strips, Further details of Denel's activities, products and services are provided in the *operational overview* on pages 44 to 53.

Denel addresses national priorities, such as skills and supplier development, maintaining advanced manufacturing and aerospace capabilities, optimising existing technology and exploring diversification, thereby increasing revenue and job creation. Global studies in the industry indicate that this sector has a multiplier effect of no less than four. This means that for every job in the sector there are no less than four downstream jobs created. Accordingly, the group, including associated companies, has 6 388 employees supporting circa 30 000 indirect jobs in the economy. Denel is actively involved in artisan training, internships, apprenticeships and maths and science student support.

The Denel group consists of a number of business units and its *organisational structure* is provided on page 9.

TECHNOLOGY ADVANCEMENT SINCE 1938

Denel was founded with a strong emphasis on a high technology defence capability to safeguard country sovereignty and national interests. These capabilities have evolved and matured over the years as summarised below:

1938-1968

The SA Royal Mint is converted to an ammunition factory in 1938, marking the start of the Pretoria Metal Pressings (PMP) division. From 1948 to 1951 the SA Department of Defence establishes an advisory committee, defence production office and resources board to support its defence production and resource requirements. During this period, production of aircraft rockets and heavy ammunition commenced. The National Institute for Rocket Research at the Council for Scientific and Industrial Research (CSIR) establishes missile technology by developing air-to-air missiles. In the early sixties a substantial effort was made by SA to set up an indigenous state-owned and private defence industry – as a result a munitions production board is established in terms of Act no. 37 of 1964, reporting to the Minister of Defence. In 1968 Armscor is established to act as the manufacturer and procurement agency of defence equipment for the Department of Defence (DoD).

1969-1991

Through the seventies and eighties SA becomes a defence technology leader in many areas. The technology to design, develop and manufacture guided weapons, electro-optical systems and subsystems is established, as well as manufacturing of assault rifles, advanced turret and artillery systems. Denel designs and manufactures a number of combat fighting vehicles, including the CASSPIR and Rooikat systems. Denel develops unmanned aerial vehicle systems (UAVS), including state-of-the-art ground control stations and secure communications. A multipurpose test range is established with the purpose to service the strategic flight-test needs of the South African National Defence Force (SANDF). During the mid-eighties, Denel commences with the development of the attack helicopter, the Rooivalk, which includes an integrated weapons system. Mechem is on the forefront of humanitarian landmine and explosive remnants of war (ERW) clearance services using the technologies designed by Denel. In 1992 the position of Armscor as the manufacturer and procurement agency is reconsidered, with a decision to separate production and procurement functions.

1992-2009

On 1 April 1992 Denel is established to take control of the main Armscor production facilities. The manufacturing business units within Armscor are transferred to Denel and there is a significant reduction in personnel, from 25 000 to 14 000 employees. In this era, approximately 70% of SA's defence acquisitions are imported. Unprofitable contracts are entered into, mainly to maintain critical capacity, whilst certain facilities are discontinued. R&D spend is reduced and Denel is unsuccessful in entering commercial markets with non-military products. A strategy of centralising core activities is pursued to improve financial performance. Denel experiences a loss of critical markets, encounters increased financial losses and solvency problems. Notwithstanding these challenges, Denel continues to enhance and improve on its technologies, such as the Hoefyster project in particular, which entails the development and production of a new generation infantry combat vehicle and the upgrade of unmanned aerial surveillance systems capability. Denel's capabilities are also leveraged to contribute to the national objective of advanced manufacturing and Denel enters into a contract with Airbus for the design and manufacture of composite components for the A400M aircraft.

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

2010-2013

After a decade of posting financial losses, the group returns to profitability. Various initiatives are implemented, including strategies focused on significantly improving business development, enhancing capabilities, leadership and transformation, as well as improving efficiencies. The company experiences improved stakeholder relationships and enhanced support in its marketing efforts.

The changing nature of conflict is driving the demand for new technologies, and Denel directs its future technology development towards new warfare, including border protection, landward renewal and maritime security. Key investments are earmarked for both conventional and unconventional warfare technologies.

VISION, STRATEGIC DRIVERS AND VALUES

Denel is a strategic state-owned landward and aerospace defence company, as well as a leading exporter of niche products and solutions. The business is underpinned by its vision, strategic drivers and values:

Vision	Strategic drivers	Key objectives	To be state
The credible state-owned SA strategic partner for innovative defence, security and related technology solutions	Grow revenue and improve customer relationships	• Significant increase to the order book • Strong relationship with customers and stakeholders • Leverage smart partnerships	A dynamic, vibrant, financially sustainable, transformed and profitable organisation
	Increase productivity, efficiency and profitability	• Optimised cost structure • Strong balance sheet • Profitable returns • Operational excellence	
	Enhance capabilities and foster innovation	• Increased R&D investment • New technologies • Expanded portfolio offering	
	Create a dynamic and vibrant organisation	• B-BBEE level 3 rating • Skills development • Transformed organisation	

Values

Performance	Integrity	Innovation	Caring	Accountability
We embrace operational excellence	We are honest, truthful and ethical	We create sustainable, innovative solutions	We care for people, customers, communities and the environment	We take responsibility for our actions

Purpose

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

Leverage indigenous capability to access selected export markets

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

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

ORGANISATIONAL STRUCTURE

2 DIRECTORS AND THEIR PROFILES

Zoli NR Kunene

CHAIRMAN'S STATEMENT

Denel's mandate remains that of manufacturing and supplying defence equipment and services to its markets. We are satisfied that Denel has in recent years been successful in its strategies, aimed at ensuring an optimal mix between local and export business, as exports now account for close to 50% of Denel's activities.

INTRODUCTION

I am pleased to present this integrated report to stakeholders, outlining a broad overview of what Denel does, its performance against targets, key achievements for the year, sustainable development, governance and the consolidated annual financial statements.

Denel's mandate remains that of manufacturing and supplying defence equipment and services to its markets. We are satisfied that Denel has in recent years been successful in its strategies, aimed at ensuring an optimal mix between local and export business, as exports now account for close to 50% of Denel's activities.

The business operates under challenging trading conditions, in a highly regulated global environment with high levels of stakeholder interest. I am grateful for the role and strategic interface our respective stakeholders play, in supporting the company and the board in addressing business and regulatory issues, contributing to the success of the business.

SUSTAINED IMPROVEMENT

The financial year 2012/13 will go down as having been a challenging, but rewarding year in which bold strategic decisions were taken and implemented. These decisions have undoubtedly contributed to this year's positive financial results, confirming that Denel has indeed turned the corner. The positive performance demonstrates the company's agility and resilience in a difficult environment. I believe that Denel is in a position to deliver sustainable returns, achieve long-term growth and Shareholder's targets. This is further demonstrated by the fact that the profit posted during the year under review was achieved after taking into account developmental spend, such as skills development R46m, self-funded R&D R142m, as well as the once-off restructuring costs R61m. Should these be excluded, it is clear that Denel has posted strong financial results.

The long-term nature of the defence business, high working capital requirements and the concluding of contracts fairly late in the financial year continue to negatively impact the business and cash flows. Nonetheless, I am encouraged by the willingness of


stakeholders to support company efforts in managing working capital and ensuring timeous contracting.

Positive financial results for the year and a recapitalisation of R700m, have improved the balance sheet. The capital injection confirms Government's support for Denel and is a recognition that the company is a national strategic asset. Debt levels have stabilised over the last two years and maintained at approximately R1.85bn. The debt has been restructured to short-term commercial paper, as well as three-year and five-year bonds following the Shareholder extending the underlying government guarantee to a five-year instrument. This will enable Denel to effectively manage liquidity related risks and allow management to focus on the operations.

We have challenged management on the five-year budget (corporate plan) to achieve a set level of profitability while delivering on socio-economic imperatives. The corporate plan demonstrates that the business will continue to achieve positive financial results going into the future. We are confident in Denel's ability to achieve sustainable profits and deliver value for the Shareholder.

STRATEGIC AND OPERATIONAL DEVELOPMENTS

We have been engaging extensively on strategy matters requiring redirection and refocus. The company strategy incorporates a strong focus on revenue growth, enhancing capabilities through innovation, as well as enhancing leadership and improving transformation. We are firmly driving business development, and during the year under review, the related organisational structures were revisited to ensure that the market is approached in an integrated way. The group is pursuing a number of significant opportunities, and we are pleased with the progress the group has made in the area of business development.

We are committed to addressing at the highest level, challenges relating to employment equity (EE) and preferential procurement. We have challenged management to improve their efforts in this regard, and note that specific interventions are being implemented namely, those aimed at ensuring that the work force is representative and that the procurement budget is shared equitably.

I was privileged to lead various engagements with stakeholders and customers to address business issues. From these engagements, it is evident that the stakeholders have confidence in the company. Customer satisfaction remains at the top of our priority list and we will continue to address areas requiring improvement.

Denel appreciates that it is a challenge to keep pace with today's technology developments without on-going investments, considering the changing nature of conflicts and customer requirements. Accordingly, we are addressing these challenges by investing in skills development and R&D. These interventions are a permanent feature of the company's strategy.

The company's strategy incorporates broadening our product offering and improving access to international markets. Denel has concluded three joint ventures, namely:

- Acquired a majority stake in LMT Holdings SOC Ltd (LMT), a vehicle engineering and manufacturing company, enhancing Denel's vehicle manufacturing capability. LMT has already participated in

designing and assembling vehicles for Denel to deliver to its international markets.
- Entered into a joint venture with the United Arab Emirates (UAE) government-owned Tawazun group. The joint venture will become a centre of excellence for manufacturing and will support some of the precision-guided munitions. Both shareholders are pleased with the progress and confident that this is the first step to broader and deeper business relationships.
- Recently established a centre of excellence to support MRO work for Russian Helicopters, which will enable us to service the related aircraft on the African continent.

We have confidence in the strategy the company is following, and will continue to support management in the execution thereof.

CONTRIBUTION TO NATIONAL IMPERATIVES

Denel is strategic to the defence community and makes key contributions through advanced manufacturing, skills development, technology development, and high value-added exports. Denel is involved in various socio-economic development (SED) initiatives contributing to building the nation. Our SED is mainly focused towards education and there are on-going discussions with the Shareholder on how best we could maximise Denel's contribution to society.

Denel is proud of its contribution towards skills development aimed at providing skills and training for the youth to enable them to participate in the economy. Denel runs various programmes in support of this objective, including an engineering academy, bursaries, collaboration with universities, sponsorships and our flagship programmes, the Denel Engineering Academy of Learning (EAL) and Denel Technical Academy (DTA). More detail on these programmes is provided in the *people management* section.

Denel's capabilities in the civilian security space are utilised in the fight against rhino poaching and in supporting the South African Police Services (SAPS). We are pleased that the Department of Science and Technology (DST) is in the process of outsourcing its space capability to Denel to take advantage of the group's in-depth engineering skills for the benefit of the National Space Programme.

GOVERNANCE

During the first quarter of the 2012/13 financial year, the board was evaluated by an independent firm of governance experts and found to be working collectively, effectively and efficiently in executing its tasks. The board and its committees, including the audit and risk (A&R), personnel, remuneration and transformation (PR&T), as well as the social and ethics committee have continued to ensure sound governance across Denel. Denel has mature governance processes and this has been confirmed by two independent governance reviews, namely:
- Denel was recognised for excellence in corporate reporting, achieving top position in the integrated report disclosures for ethical leadership, corporate citizenship and board remuneration. The review was conducted by Nkonki Inc. in collaboration with academics.
- Denel was rated as a leading and well-governed SOC by the Centre for Corporate Governance in Africa at the University of Stellenbosch among 21 Schedule 2 companies.

The board remained unchanged during the year, save for the resignation of Ms Sonja Sebotsa due to other business commitments. I wish to express my sincere gratitude to the outgoing board member for her invaluable contribution.

LOOKING FORWARD

The group will continue to pursue market opportunities across its strategic markets with a defined level of focus on Africa. The African market has more requirements for MRO of helicopters and fixed-wing aircraft, as well as humanitarian demining activities.

We will continue delivering on our mandate of providing strategic capabilities to the defence environment, and leverage these capabilities for export markets to improve revenues.

APPRECIATION

I thank the Minister of Public Enterprises, Mr Malusi Gigaba, his Deputy Minister, Mr Bulelani Magwanishe, the Director-General, Mr Tshediso Matona and the DPE officials for their commitment and support to Denel during the current financial year.

I also thank the Minister of DoD&MV, Ms Nosiviwe Mapisa-Nqakula, Deputy Minister, Mr Thabang Makwetla, the Secretary of Defence, Dr Sam Gulube and officials of the DoD&MV, the SANDF and Armscor for their continued support, guidance and commitment to Denel throughout the year.

I acknowledge the support received from the Minister of Finance, Mr Pravin Gordhan, the Deputy Minister of Finance, Mr Nhlanhla Nene and the Director General of the National Treasury, Mr Lungisa Fuzile.

I thank the chairperson of the Portfolio Committees on Public Enterprises, Mr Peter Maluleka, as well as, the chairperson of the Select Committee on Labour and Public Enterprises, Ms Priscilla Themba for their oversight role and support towards Denel.

I acknowledge my fellow board members for their individual and collective wisdom during the financial year under review. Their strong commitment to serving Denel is greatly appreciated.

I recognise the executive management team for the way they have responded to the increasing demands of the industry in which Denel operates and commend them on the results derived from their efforts. We also thank employees who continue to deliver on exceptional and highly complex projects.

Zoli NR Kunene
Chairman

DENEL BOARD OF DIRECTORS

The board is responsible for the strategic direction and ultimate control of the company according to its memorandum of incorporation and board charter.

Zoli NR Kunene

Riaz Saloojee

Fikile Mhlontlo

Dr Gert Cruywagen

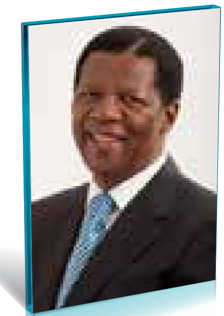
Martie Janse van Rensburg

Bulelwa Ndamase-Paledi

Prof Tshilidzi Marwala

Adv Melissa Ntshikila

Adv Ghandi Badela



Mavuso Msimang

Bafana Ngwenya

Prof Stella Nkomo

Nkopane Motseki

Matodzi Ratshimbilani

Ziphozethu Mathenjwa

Zoli NR Kunene (60)

Studies in Law, Certificate in Industrial Relations and attended various leadership courses

INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE BOARD

Appointed to the board in October 2006; appointed as chairman in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS

Chairman of the board

OTHER DIRECTORSHIPS

Executive director of Kunene Brothers Holdings; chairman of GEW Technologies and Alcatel Lucent SA and non-executive director of Cell C.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

30 years of experience in business and board directorships. Chairman on various boards and institutions, resulting in strong leadership, strategy and business development experience and skills.

Riaz Saloojee (50)

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

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER

Appointed to the board in January 2012

DENEL BOARD COMMITTEE MEMBERSHIPS

Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees

OTHER DIRECTORSHIPS

Former CEO of a number of defence companies, including Metatek; Grintek Integrated Defence Systems; Saab South Africa and Saab International (Sub-Saharan Africa). Former soldier, held various positions within the Defence Force, including advisor on transformation and human resources management and later leaving the force as a Brigadier General. Past chairman of SA Aerospace Maritime and Defence Industries Association (AMD) and the South African Air Force Reserve Council.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Vast leadership experience, business development and marketing, negotiation skills, mergers and acquisitions, international defence and customer experience, as well as significant experience working in Sub-Saharan Africa.

Fikile Mhlontlo (44)

BCompt, BCompt(Hons), CA(SA) and attended various leadership courses

EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER

Appointed to the board in November 2008

DENEL BOARD COMMITTEE MEMBERSHIPS

Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees, non-executive director of Rheinmetall Denel Munition (Pty) Ltd (RDM), Tawazun Dynamics LLC and LMT, as well as trustee of Denel Post-Retirement Trust.

OTHER DIRECTORSHIPS

Former director and audit partner of one of the big four audit firms and held various management positions. Member of the LoveLife audit and risk committee.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation.

Dr Gert Cruywagen (57)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in September 2008

DENEL BOARD COMMITTEE MEMBERSHIPS

Member of audit and risk and, social and ethics committees and chairman of Denel Aerostructures SOC Ltd (DAe)

OTHER DIRECTORSHIPS

Member of the King committee on corporate governance; chairman of the group risk management committee of the City of Johannesburg and chairman of Cruywagen-IRMSA risk foundation. Trustee of GCM Trust; Tsogo Sun Group Medical Aid Scheme and Tsogo Sun Pension Fund, director of risk of Tsogo Sun group and convenor of risk workgroup (King II and III). South African Risk Manager of the year in 2001 and 2009. Honorary life member of Institute of Risk Management (UK) and honorary member of Polish Risk Management Association (POLRisk) and Russian Risk Management Association (RUSRisk).

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership in corporate governance, the governance of risk, reporting and discipline, risk and insurance management, understanding of internal audit and control processes and strategy formulation.

Martie Janse van Rensburg (56)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in August 2010

DENEL BOARD COMMITTEE MEMBERSHIPS

Chairman of audit and risk committee

OTHER DIRECTORSHIPS

Chairman of Headstream Holdings (Mauritius) and Headstream Water Holdings (SA); chairman of NMI (Namibia) and non-executive director NMI group. Non-executive member of the International Credit Committee of First Rand Bank (with focus on Africa; specialised trade and project finance). Member of Presidential Infrastructure Coordinating Commission Technical Task Team reporting to Minister Patel. Former chairman of Johannesburg Water; former CEO of TCTA and held various non-executive director roles, including serving and chairing audit and risk committees.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Senior leadership, transacting, funding, financial and risk management, governance, business processes and strategy formulation.

Bulelwa Ndamase-Paledi (42)

BA, LLB, LLM

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in August 2010

DENEL BOARD COMMITTEE MEMBERSHIPS

Member of audit and risk committee and non-executive director of DAe

OTHER DIRECTORSHIPS

Founder and managing director Ndamase Incorporated, as well as non-executive director of ICC (DBN).

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership, legal and business management

Prof Tshilidzi Marwala (41)

BSc Mech Eng, Masters Mech Eng, PhD Computational Intelligence Eng Systems, Post-Doctorate in Information Technology

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in August 2010

OTHER DIRECTORSHIPS

Chairman of PIKITUP; non-executive director of EOH and shareholder in MTN.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership, relevant industry skills as an engineer, business management, lecturer and researcher.

Adv Melissa Ntshikila (40)

BA, LLB

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS

Member of personnel, remuneration, and transformation committee

OTHER DIRECTORSHIPS

Senior government negotiator on labour related matters in the Department of Public Service.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Human resources, labour law expertise and labour relations, negotiations skills as well as legal

Adv Ghandi Badela (54)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS

Member of personnel, remuneration and transformation committee

OTHER DIRECTORSHIPS

Non-executive director of Abrina 5604 Ltd (Sasol Inzalo share scheme); Amagcisa Holdings; Badela Brothers Holdings (Pty) Ltd; Metrobus Johannesburg; CSIR and member of Advisory Council of University of Johannesburg Engineering Faculty.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership, entrepreneurship, legal advice, arbitration, mediation and negotiation, relevant industry skills as engineer and business development.

Mavuso Msimang (71)

BSc, MBA

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS

Member of ethics and social committee

OTHER DIRECTORSHIPS

Chairman of iSimangaliso Wetland Park Authority; Gidani; Blueprint Holdings; Design of Europe (SA); Tourism Business Council of SA and WWP-Memeza Holdings; Sisazonke Trading; deputy chairman of Save the Children SA; African Parks Network; non-executive director of Centre for Development & Enterprise; Corruption Watch (RF) NPC; Peace Park Foundation; Harmony Gold Mining; Shred-on-Site CC; Superflex Limited; Investment Solutions and

Investment Solutions Unit Trust. Trustee and board member of WWF SA; former CEO of Sita; SANParks and former director general of Home Affairs and CEO of the Oliver and Adelaide Tambo Foundation.

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

Bafana Ngwenya (51)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS
Member of audit and risk committee

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

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

Prof Stella Nkomo (66)

BA in Business Education, MBA, PhD

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS
Professor of Human Resources Management at the University of Pretoria. Director of the International Women's Forum of SA.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE
Professor, expert in employment equity and gender in organisations, human resources and operations director, professor of business leadership and deputy dean for research and post-graduate studies.

Nkopane Motseki (47)

Certificate in Forensic Investigations and Crime Intelligence, various intelligence courses

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

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

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

Matodzi Ratshimbilani (39)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS
Founding director of Tshisevhe Gwina Ratshimbilani Inc and deputy chairman of Railway Safety Regulator

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

Ziphozethu Mathenjwa (36)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

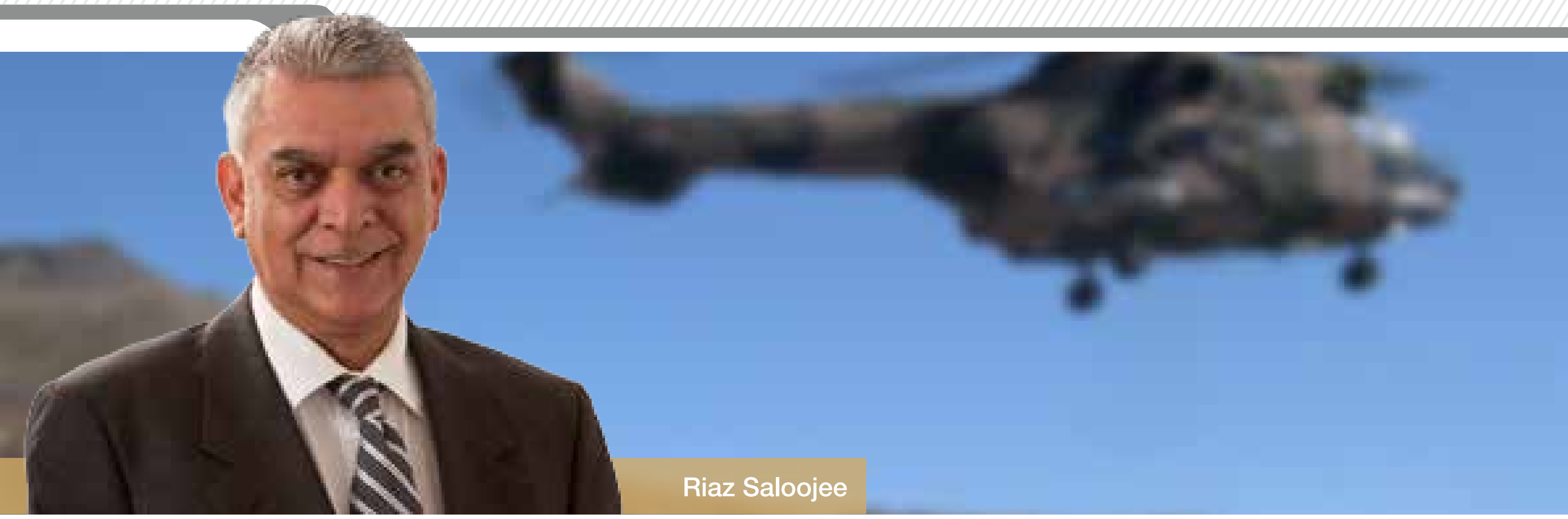
Appointed to the board in July 2011

OTHER DIRECTORSHIPS
Founder and director of Gabsie Business Solutions, Trustee on Mvula Trust, non-executive director of Umgeni Water Board and chairman of the audit committee for the Department of Economic Development and Tourism for Mpumalanga Province.

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

3

EXECUTIVES AND THEIR PROFILES



GROUP CHIEF EXECUTIVE OFFICER'S REPORT

I am positive about the future of Denel in light of a strong order pipeline, the general interest that is shown in Denel products and various internal and external interventions that we are implementing. The positive progress we have made during the year leads me to believe that Denel is poised for growth and it is indeed the time to focus on creating a sustainable future.

INTRODUCTION

I shared my initial impression of Denel in my previous report, which identified areas requiring interventions in order to ensure a more stable company. I was clear at the time that the organisation was moving in the right direction and that changes needed to be made in specific areas in a responsible manner. Accordingly, the financial year under review was characterised by interventions aimed at improving the business and to ensure an integrated company. One of the changes we have initiated is the broadening of the group executive committee (Exco) to include core business units CEOs. This is in line with our commitment to establishing a more inclusive leadership, creating conditions for diverse views and for people to work as a team for the benefit of the organisation. The new Exco is working effectively as a unit, fully involved, understands and contributes to mapping the strategic direction for Denel.

I am positive about the future of Denel in light of a strong order pipeline, the general interest that is shown in Denel products and various internal and external interventions that we are implementing. The positive progress we have made during the year leads me to believe that Denel is poised for growth and it is indeed the time to focus on creating a sustainable future.

From the onset, I acknowledge our stakeholders, my executive team, management and employees who have supported me in leading the organisation towards achieving our vision and giving effect to our values.

STRATEGY AND INTERVENTIONS

Our strategy is focused on significantly growing revenue, optimising costs and efficiencies, strengthening the balance sheet, transformation and modernising technology. The planned growth is backed by new requirements in our traditional markets, strong government support and strategic partnerships locally and internationally. Revenues are projected to grow year-on-year at an average of 10% supported by an order book of R22bn and a strong order pipeline that will contribute to revenue growth from R3.9bn to R6.6bn over the next five years. Our success in these endeavours will make Denel profitable

on a sustainable basis. We have high expectations that important local projects in the fields of infantry combat vehicles and the acquisition of aircraft for maritime reconnaissance that are currently in the pipeline will receive the green light in the coming year. Participation in these projects will further contribute to improving Denel's financial performance and the order book.

We have made progress in implementing all elements of our strategy. Significant attention has been on strengthening internal business development processes to capture targeted markets, including some of the emerging markets, which are showing growth in defence spend. We are embarking on a number of significant export sales campaigns. Cost containment measures resulted in reduction in operating costs as we consolidated businesses and streamlined support services. As a result of these measures, employees in selected areas took voluntary severance packages. These interventions will have their full impact in future, positively impacting profitability.

Our recent strategy review further highlighted the importance of aggressively driving business development as discussed above, as well as enhancing technology and capabilities. Given the rapid change of defence and aerospace technology, Denel is prioritising the development of technology and capabilities to remain globally competitive. We have identified a number of areas in the landward, aerospace and munitions environments requiring further development and capital investment. These future investments will in certain instances be funded through internal resources and in other cases jointly with our partners. One example is Denel's investment in Seeker 400, a state-of-the-art surveillance and reconnaissance platform that enhances situational awareness to support homeland security needs, which is scheduled for its maiden flight in the third quarter of 2013.

I emphasise that our overall strategic intent is to develop a dynamic, vibrant, financially sustainable and profitable Denel, which has empowered its employees with regards to skills development, technology innovation and reflects the transformation imperatives of government. Denel's strategic success revolves around a strong stakeholder alignment, including the DoD&MV, DPE, National Treasury, Parliamentary Committees and Government on a wider front. Engagements with key stakeholders are on-going and aimed at resolving issues, as well as supporting Denel in its endeavours to secure new business. These engagements have shown a remarkable improvement in the relationship between Denel and its stakeholders over the last 12 months.

We are committed to delivering an integrated, optimally performing and sought-after Denel to our stakeholders and the country. I further affirm Denel's commitment to being a credible defence company, committed to ensuring the strictest ethics and adherence to all legal and statutory obligations.

OPERATIONAL PERFORMANCE

From an operational point of view, this was an extremely tough year as a number of contractual issues could only be finalised in the latter half of the year, placing additional pressure on resources and the timely execution of projects. The impact of the late finalisation of contractual issues resulting in late invoicing of revenue, commonly referred to as the

"hockey stick" effect, is customary in our industry and was particularly severe in this financial year as evidenced by cash utilised in operations.

We have an interventionist approach aimed at the smooth conclusion of contracts, execution and timeous finalisation of programmes. Our approach includes engaging the procurement agency of our customers on specific project matters, as well as discussing progress on key projects. When appropriate, we engage key decision-makers regarding the extent of committed funds that are rolled back to the fiscus, placement of multi-year orders and in addressing specific issues. As part of the strategy to find solutions on operations, project and technical matters, I have appointed a chief operating officer who has a track record in addressing similar matters. I have every confidence that over time Denel will make necessary inroads regarding these matters.

Denel continued to execute its major projects, embarked on organisational restructuring, concluded three joint ventures and I highlight some of these below:

- Completed various demining and clearing of ERW in South Sudan, Democratic Republic of Congo, Senegal, Libya, Angola and Mozambique, clearing large tracts of land and thousands of kilometres of roads.
- Continued to finalise the qualification of the A-Darter 5th generation air-to-air missile in close collaboration with local and Brazilian industry partners. The successes achieved on this collaborative programme have laid the foundation for wider technology collaboration and product development with this strategic IBSA and BRICS partner nation.
- Continued to execute the development phase of project Hoefyster, the new Infantry Combat Vehicle programme of the SANDF and Denel is well positioned to execute the production order when it is received. To date over 100 local sub-contractors are actively involved in this programme across the defence industry and the wider manufacturing sectors. The intention is to allocate 70% of the contract value to SA industry. Denel met all scheduled milestones on the export turret contract to a customer in Southeast Asia.
- Delivered the final Rooivalk helicopter, the first combat support helicopter to be designed, built, qualified and certified on the African continent. This bears testimony to the capability and skills this country has to offer.
- Established a joint venture with a UAE government-owned Tawazun Holdings in the missiles domain, which will be a centre of excellence for manufacturing of guided munitions. Denel also acquired LMT, a strategic supplier of military vehicles to enhance our landward vehicle capability.

Comprehensive details of significant contracts are included in the *directors' report*.

PEOPLE AND TRANSFORMATION

Denel believes that people are the key driver to business success, and is committed to creating an environment that attracts and retains critical skills. Learning, personal development and job satisfaction remain key components of Denel's human resource strategy to ensure a competent and motivated workforce. Denel leadership and management programmes are part of people development initiatives aimed at continuously meeting the changing demands of the

corporate landscape. The Denel leadership development programme run by Unisa has been evolving over the past two years and forms a vital ingredient to developing Denel's future leaders.

Denel has a transformation programme that enabled the company to achieve a level 3 B-BBEE compliance rating. One of the aspects of transformation that has not yielded the desired results as yet is employment equity. I stress that creating a diverse workforce is of utmost importance to Denel and has made this a specific management focus area. During the year under review, we have implemented the following to ensure that our transformation interventions are sustainable:

- Appointment of business unit deputy CEOs in July 2012 - two of these deputies have subsequently assumed business unit chief executive roles.
- Targeted a 70% ACI ratio on all new appointments as one of the measures to address employment equity (EE) disparities – we have achieved 79%, which has contributed significantly towards our committed EE targets.
- Appointment of an executive supply chain manager, to ensure that our supply chain is more efficient and that our suppliers comply with the transformation requirements of the country. Interventions include ensuring suppliers are not only vetted for B-BBEE compliance, but that their workforce is transformed. In addition, there is a drive to ensure adequate participation in procurement by black-owned suppliers (preferential procurement drive).
- Stringent EE targets are set to ensure improved diversity. Transformation comprises 20% of the business units' performance scorecard which specifically includes a substantial weighting on employment equity.

I am excited about the progress that is made on our youth development programmes aimed at building our internal skills pipeline and enhancing the potential of our youth. Our approach is to "grow our own timber" to ensure a healthy talent pipeline that the business can tap into. One other initiative is our Engineering Academy of Learning where the bursars after qualification, undergo a year-long internship programme to develop, nurture and grow their talent by combining formal courses, on the job mentoring and exposure to actual development projects. This model based in our Missiles business is being adopted by all business units within the group in order to maximise skills development. Further, a process to reposition DTA has commenced with a view to extracting greater value from this strategic human capital development resource. Denel continues to contribute to the requirements of the New Growth Path (NGP) in terms of skills development and we are meeting our commitments regarding artisan training, engineering studies and general skills development.

Our aviation business was adversely affected when a long-standing contract was restructured at the request of the customer. This restructuring negatively affected approximately 400 jobs as employees had to be retrenched. We are sad about this development, but could at least retain 139 critical posts as part of a new contract. Further to this, we regrettably faced four weeks of industrial action involving 500 employees during January 2013 at one of our business units, PMP. Through a negotiation process an agreement was reached, paving the way for further engaging and amicably resolving the disputed matters. This negatively impacted the financial performance of that business unit.

IMPROVING FINANCIAL PERFORMANCE

Denel has posted positive financial results, which are an improvement on prior years. These results remain fairly modest considering the level of profitability we are targeting to achieve in the future. Revenue growth is mainly attributable to a 34% increase in export revenue as we begin to execute some of the significant export orders received during the 2011/12 financial year. The export revenues have increased in all our major regions in line with our projections. The analysis of the five-year budgets indicates that there will be significant revenue growth over the medium-term and will continue to be profitable for the foreseeable future. We are pleased with these results and the year-on-year improvement.

Our strategy incorporates a focus on strengthening the balance sheet. The recapitalisation of R700m, coupled with improving profitability over the last year, has contributed towards strengthening the balance sheet. We restructured the short-term debt of R1.85bn to a combination of short-term debt, three-year and five-year bonds to mitigate liquidity risk. The Denel bond issue was oversubscribed, showing strong support for Denel by the capital market. We noted similar signs of confidence during road shows with financial investors in August 2012. Furthermore, FitchRatings revised the Denel long-term rating from negative to stable, which is a positive development in light of recent downgrades that have been experienced by other companies.

Stringent working capital management remains critical for the success of Denel as we embark on our growth strategy. We continue to challenge and improve cash management. The profitability achieved was due mainly to an efficiency drive in which cost optimisation and discipline in application of resources were dominant throughout the value chain. We are focusing on these elements and as per our projections we expect to continue to see positive results going in to the next financial year and beyond.

CONTRIBUTION TO SUSTAINABLE FUTURE

Our business practises contribute to sustainability and we have made progress in creating sustainable operations. We have embedded management systems, risk management processes and policies that govern behaviour and business conduct, whilst adhering strictly to general occupational health, safety and environmental prescripts.

Specific reporting on sustainable development, is provided in the *sustainable development* section on pages 74 to 109.

APPRECIATION

I wish to express my heartfelt thanks for the support I received from the Minister, Deputy Minister and the Director General of the DPE. I extend my appreciation to the Minister and Deputy Minister of DoD&MV, Secretary of Defence, SANDF, Armscor, organised labour and industry partners for their support and contribution.

I want to specifically thank the Denel board and the chairman for their continued support and confidence in myself and the executive team.

I am saddened that our beloved group executive for HR and Transformation, Mike Ngidi, passed away shortly after year-end. He will be truly missed as he brought a wealth of strategic leadership, experience and humanity to his role.

I bid farewell to Maj Gen (Ret.) Otto Schür and Carel Wolhuter, who are retiring as executives of the company, after many years of selfless service. I take this opportunity to express my appreciation for the contribution they have made to Denel over the years, and wish them well as they enter the next phase of their lives.

I extend my appreciation to the executive team and all Denel employees who once again made it possible for Denel to report improved financial and operational results for the year. I call upon each of you to make the 2013/14 financial year an even greater success. I urge, as the Denel family, that we should continue to be passionate about work, be really committed and at the same time enjoy ourselves as we execute our responsibilities.

Riaz Saloojee
Group chief executive officer

DENEL EXECUTIVES

Denel group executive committee


Riaz Saloojee


Fikile Mhlontlo


Zwelakhe Ntshepe


John Morris


Jan Wessels


Natasha Davies


Stephan Burger


Ismail Dockrat


Michael Kgobe


Phaladi Petje


Abrie van der Walt


Tsepo Monaheng

Members of senior management, who are permanent invitees to Exco


Theo Kleynhans


Mxolisi Makhatini


Abdul Carim


Themba Zwelibanzi


Elizabeth Africa


Fortune Legoabe


Dennis Mlambo


Vuyelwa Qinga

Riaz Saloojee (50)

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER

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

DIRECTORSHIPS

Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees.

Former CEO of a number of defence companies, including Metatek; Grintek Integrated Defence Systems; Saab South Africa and Saab International (Sub-Saharan Africa). Former soldier, held various positions within the Defence Force, including advisor on transformation and human resources management and later leaving the force as a Brigadier General. Past chairman of AMD and the South African Air Force Reserve Council.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Vast leadership experience, business development and marketing, negotiation skills, mergers and acquisitions, international defence and customer experience, as well as significant experience working in Sub-Saharan Africa.

Appointed as group chief executive officer in January 2012.

Fikile Mhlontlo (44)

EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER

BCompt, BCompt(Hons), CA(SA) and attended various leadership courses

DIRECTORSHIPS

Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees, non-executive director of RDM, Tawazun Dynamics LLC and LMT, as well as trustee of Denel Post-Retirement Trust.

Former director and audit partner of one of the big four audit firms and held various management positions. Member of the LoveLife audit and risk committee.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation.

Appointed to the group executive committee in October 2008.

Zwelakhe Ntshepe (55)

GROUP EXECUTIVE: BUSINESS DEVELOPMENT AND CORPORATE AFFAIRS

Post-graduate Diploma in Management Studies, MBA

DIRECTORSHIPS

Non-executive director of Cassidian Optronics (Pty) Ltd.

Former stockbroker in New York and has held various management positions.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Business management, negotiation skills, marketing and business development.

Appointed to the group executive committee in September 2003.

John Morris (44)

GROUP EXECUTIVE: STRATEGY

BSc(Hons) (Psychology and Sociology), MSc (Agricultural Economics)

DIRECTORSHIPS

Served in various positions in the Department of Trade and Industry (dti), Trade and Investment South Africa, Decillion Capital and the Department of Public Enterprises (DPE)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Strategy development and execution, corporate restructuring, mergers and acquisitions, trade and investment, economic policy and public sector.

Appointed to the group executive committee in November 2008.

Jan Wessels (54)

GROUP CHIEF OPERATIONS OFFICER

BEng(Hons) Electronics, Advanced Management Diploma

DIRECTORSHIPS

Non-executive director of Tawazun Dynamics LLC

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Held various management positions, leading business development and programmes execution activities. Appointed as CEO of Denel Dynamics in March 2005.

Appointed to the group executive committee in May 2013.

Natasha Davies (41)

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION

MCom(Business Management), BCur(Hons)

DIRECTORSHIPS

Chairman of THRIP (Technology and human resources for industry programme)

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE:

Leadership, business management experience; accomplished in all areas of the HR value chain; Transformation and change management.

Appointed in an acting capacity to the group executive committee in March 2013 and was formally appointed as executive effective in July 2013.

Stephan Burger (55)

CHIEF EXECUTIVE OFFICER OF DENEL LAND SYSTEMS

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

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Leadership, business management, product development of defence systems, system integration, business development and general management.

Appointed as chief executive officer in November 2004.

Ismail Dockrat (43)

CHIEF EXECUTIVE OFFICER OF DENEL AEROSTRUCTURES

MBA, Certificate in Programme Management, NDip Electronics Engineering

DIRECTORSHIPS

Previous non-executive director of Denel SAAB Aerostructures (Pty) Ltd and Turbomeca Africa (Pty) Ltd (TMA).

Former positions include CEO of Denel Aviation, CEO of Wesgro, GM at TISA and manager at Armscor

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Strategic leadership, business management, programme management and turnaround management.

Appointed as chief executive officer in March 2010.

Michael Kgobe (44)

CHIEF EXECUTIVE OFFICER OF DENEL AVIATION

Masters in Aeronautical Maintenance and Production Management and Executive Leadership Programme

DIRECTORSHIPS

Non-executive director of TMA and RDM.

Former COO of Denel Aviation; non-executive director of Commercial Aviation Association of Southern Africa

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Business management, engineering and project management.

Appointed as chief executive officer in March 2010.

Phaladi Petje (47)

CHIEF EXECUTIVE OFFICER OF PRETORIA METAL PRESSINGS

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

DIRECTORSHIPS

Former non-executive director Mechem SOC Ltd

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Strategic planning, business development, business process re-engineering.

Appointed as deputy chief executive officer in July 2012 and chief executive officer in May 2013.

Abrie van der Walt (54)

CHIEF EXECUTIVE OFFICER OF DENEL OVERBERG TEST RANGE

MSc(Computer Science), Executive Leadership Programme

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Business management and executive leadership experience.

Appointed as chief executive officer in December 2005.

Tsepo Monaheng (49)

CHIEF EXECUTIVE OFFICER OF DENEL DYNAMICS

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

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Leadership, business development and programme execution.

Appointed deputy chief executive officer of Denel Dynamics in July 2012 and as chief executive officer in May 2013.

Theo Kleynhans (52)

DEPUTY CEO OF DENEL AEROSTRUCTURES

BEng(Electronics), ELP, MBA

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Engineering, business management and executive leadership experience.

Appointed as deputy chief executive officer in July 2012.

Mxolisi Makhatini (41)

DEPUTY CEO OF DENEL LAND SYSTEMS

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

DIRECTORSHIPS

Former chairperson of the AMD marketing workgroup

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Specialist in the design of control systems, manufacturing, programme management, business management, business development and marketing.

Appointed as deputy chief executive officer in July 2012.

Abdul Carim (47)

DEPUTY CEO OF DENEL AVIATION

BCom, BAcc CA(SA)

DIRECTORSHIPS

Non-executive director of DAe and has held various CFO roles in government and other state-owned entities before joining Denel

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Financial management, financial reporting and management accounting.

Appointed as deputy chief executive officer in July 2011.

Themba Zwelibanzi (49)

GROUP RISK AND COMPLIANCE MANAGER

BCom, Advanced Programme Risk Management, Diploma Human Resources, Post-graduate Diploma Company Direction

DIRECTORSHIPS

Permanent invitee to audit and risk, social and ethics committees, member of DAe audit and risk committee and a trustee of Denel Medical Benefit Trust (DMBT), AMD Arms Control Committee Member, council member of SACCI and Densecure SOC Ltd board member.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Risk management, corporate governance and change management.

Appointed as risk and compliance manager in June 2005.

Elizabeth Africa (52)

GROUP COMPANY SECRETARY

BAdmin, Company Secretary studies, Executive Development Leadership

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Experience in Company's Act; King III; JSE Listing requirements; NYSE Listing requirements; Securities Exchange and Sarbanes Oxley, drafting and implementation of financial policies and financial administration.

Appointed as group company secretary in November 2009.

Fortune Legoabe (37)

GROUP LEGAL MANAGER

BJuris, LLB

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Corporate law, compliance, litigation, intellectual property law and business management.

Appointed as group legal manager in July 2011.

Dennis Mlambo (55)

GROUP SUPPLY CHAIN EXECUTIVE

BComm. Diploma in Production Management, Certified Balanced Scorecard Specialist, SHEQ training and Executive management training

DIRECTORSHIPS

Director of Ntsukumani

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE

Business processes design and optimisation, strategy formulation and implementation, supply chain management, corporate governance, risk management and business management.

Appointed group supply chain executive in October 2012.

Vuyelwa Qinga (49)

GROUP COMMUNICATION MANAGER

B Journalism and Media Studies, Management Development Programme (Rhodes University)

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE

Strategic leadership, corporate communication management, stakeholder engagement, media relations management, image and reputation management.

Appointed as group communication manager in May 2013.

4 PERFORMANCE REVIEW

Fikile Mhlontlo

PERFORMANCE REVIEW

The group has continued to implement strategic initiatives, such as streamlining business units, changing governance structures, strengthening business development and optimising cost and efficiencies.

Management focus during the year was to improve revenue, contain costs through restructuring and successfully mitigate specific risks, which culminated in the current year results. The group has a positive business outlook. It is unquestionable that the group is turning around and is poised for growth in the short- to medium-term. Our markets proved to be resilient in the face of the world economy that continued to be flat, enabling Denel to have a fairly positive year. Some of the positive developments and achievements are depicted below:

KEY ACHIEVEMENTS

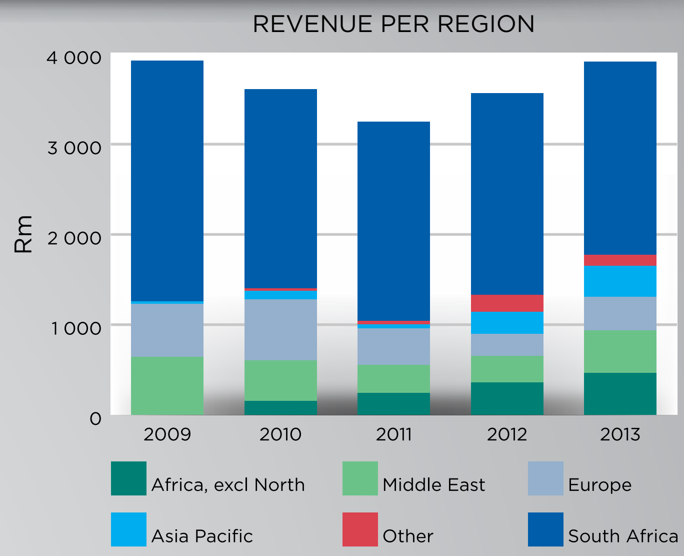
- Restructured the business, **integrating eleven businesses into six**, streamlining and sharing support services across the group, leading to cost-optimisation and savings.
- Strengthened balance sheet, improved business outlook and secured long-term government guarantees leading to FitchRatings **revising Denel's long-term rating from negative to stable.**
- In addition to being recognised for excellence in corporate reporting by Nkonki Inc. Integrated Reporting Awards in June 2012, Denel received an award for the **best governed state-owned enterprise** by the Centre for Corporate Governance at the University of Stellenbosch in October 2012.
- **Good progress** noted regarding the placement of the **Hoefyster production contract** that is significant for the sustainability of some of the landward capabilities.
- **Concluded a partnership with a leading UAE industry player, Tawazun Holdings**, to expand industrial collaboration in that country. Performed successful flight tests of a precision-guided weapon system that underpins the joint venture.
- Completed various **demining and clearing** of ERW in South Sudan, Democratic Republic of the Congo, Senegal, Libya, Angola and Mozambique, clearing large tracts of land and thousands of kilometres of roads.
- Deployment of UAVS and sniffer dogs at Kruger National Park to **assist with the fight against rhino poaching**, a project aimed at preserving our rich heritage.
- **Participated successfully in the premier industry event, Africa Aerospace and Defence (AAD) exhibition** held at Waterkloof Air Force base during September 2012 and signed a number of contracts and memoranda of understanding (MoUs) that will positively impact the business going forward. This event confirmed Denel's position as a **premier leader** in the industry on the world stage.
- **Signed an agreement to be the preferred provider** of MRO services with **Russian Helicopters** and **Irkut Corporation**, as well as **Ukraine-based Antonov**.
- The ammunition and explosives business unit retained its **excellent safety record** with the LTIFR of 0.22, which puts it amongst the top safest companies involved in dangerous goods, to work for.

FINANCIAL HIGHLIGHTS

REVENUE

Revenue R3 918m improves 10%

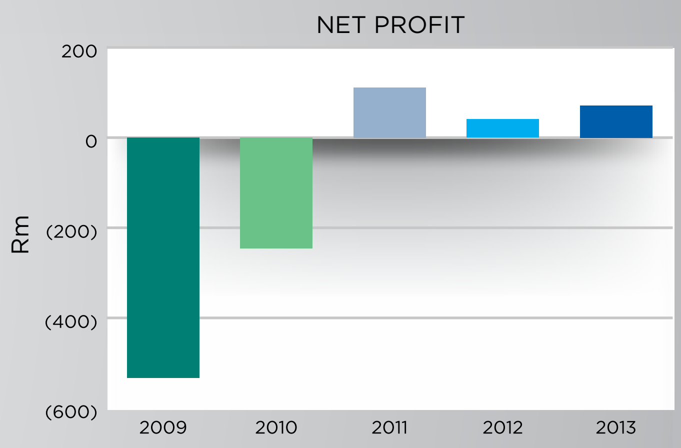
- Local revenue **R2 135m** remains fairly stagnant
- Export revenue **R1 783m** improves by 34%



NET PROFIT

Net profit R71m improves by R30m

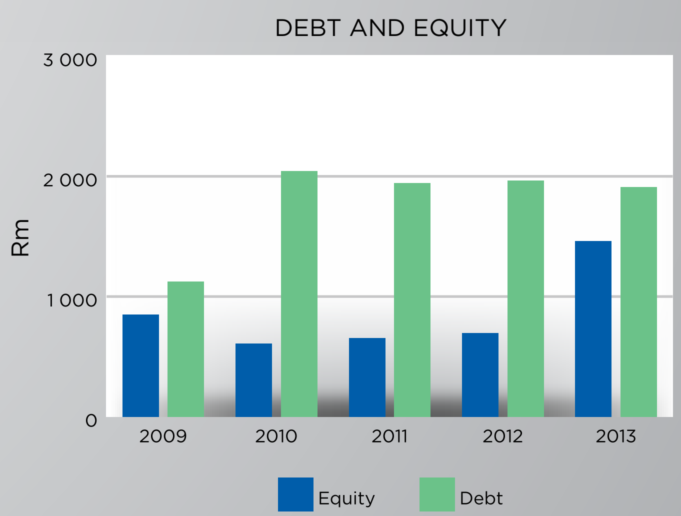
- Significant R&D spend of **R528m**
- Skills development spend of **R46m**
- Share of profit from associated companies **R72m** improves 118%
- Operating profit **R117m** improves 17%
- Net loss posted by DAe **R51m** improves 35%



DEBT AND EQUITY

Debt equity ratio improves from 2.8 to 1.3

- Equity position **R1 472m** improves by **R777m**
- Borrowings marginally reduce by **R51m**



KEY FINANCIAL PERFORMANCE INDICATORS

KEY AREAS		2013 Rm	2012 Rm	2011 Rm
Revenue	▲	3 918	3 568	3 252
Gross profit	▼	826	862	503
Share of profit from associated companies	▲	72	33	81
Earnings before interest and tax (EBIT)	▲	189	133	230
Net finance costs	▲	(107)	(84)	(120)
Net profit	▲	71	41	111
Equity	▲	1 472	695	654
Borrowings	▲	1 913	1 966	1 946
Ratios		%	%	%
Gross profit	▼	21%	24%	15%
Operating profit/(loss)	■	3%	3%	(10%)

REVENUE

Denel has seen a **10%** improvement in revenue during the year under review due to increased activities in some of the export contracts within the missiles and landward businesses. Local revenue remained fairly stagnant, whilst export revenue increased by **34%** from **R1 329m** to **R1 783m** supported by the significant export orders received in 2012. Export revenue increased in all major regions in line with the business development strategy. Local revenue amounted to **R2 135m** (2011/12: **R2 239m**), which is **55%** (2011/12: **63%**) of total revenue.

NET PROFIT

The net profit for the year is **R71m**, an improvement on the prior year, in part as a result of the increase in revenue, the restructuring and cost savings initiatives. Continuous optimisation throughout the group saw the operating expenditure percentage decrease from **27%** to **24%**. The group's results continue to be impacted by the interest on external borrowings and the financial losses posted by DAe albeit significantly reducing year-on-year. The results were further influenced by a financial gain arising from an early settlement of a loan payable. More details are provided in the *directors' report* on pages 116 to 120.

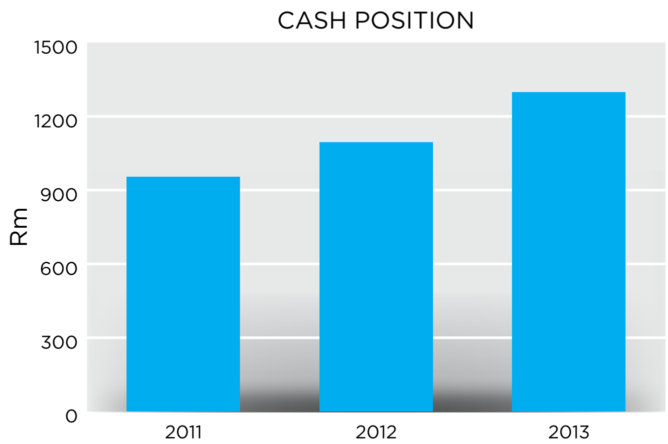
SHAREHOLDER'S EQUITY

It is pleasing to note a steady improvement in the equity line of the balance sheet as Denel begins to post profits. In particular, the current year equity balance has substantially increased due to **R700m** capital injected by the Shareholder in support of the aerostructures business.

CASH RESOURCES

The defence industry requires high upfront working capital investment, and this places Denel in a challenging position from a cash management point of view. The business has to be internally funded for the greater part of the year as late placement of orders results in abnormally high revenue only processed in the last quarter of the year. The group generated positive cash inflows of **R203m** for the year, although cash utilised in operations was **R151m**.

The group reduced its net borrowing position from **R872m** in 2011/12 to **R618m** in 2012/13 and reduced re-finance risk by restructuring the **R1.85bn** short-term debt to short-term commercial paper and medium-term bonds. The graph below depicts the cash on hand over the past three years.



RISK MANAGEMENT

Denel closely monitors risks relating to liquidity, interest rates, foreign exchange, counterparty, trading facilities and settlements. The turnaround to profitability and the support shown by the Shareholder through the recapitalisation were instrumental in successfully mitigating the number one risk identified in the previous financial year, i.e. going concern. The continued pressure on the local defence budget and the global slowdown, have the potential to impact orders negatively, and this has been prioritised in the risk management process. More detail is provided in the *governance* section of this report on pages 56 to 71.

SUSTAINABILITY

Denel has processes that address sustainability and include safety, health, environment, quality and social elements. Policies and procedures are certified at most of the operational sites, e.g. ISO14001, ISO9001 and OHSAS18001. One of the significant projects undertaken during the year was participation in the 49M energy saving initiative, aimed at reducing electricity usage by at least 10% over the next year. More detail is provided in the *sustainable development* section of this report on pages 74 to 109.

PERFORMANCE AGAINST THE SHAREHOLDER'S COMPACT

Denel commits to key performance areas with its Shareholder on an annual basis and this is documented in the Shareholder's compact. Performance against the contracted targets is continuously monitored by the board and reported to the Shareholder on a quarterly basis. We are pleased that Denel has outperformed the contracted targets in a number of areas. The performance achieved by the group for the year under review, compared to the contracted targets, is provided in the table below:

STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	ACHIEVED	CONTRACTED
Strategic role in the provision of defence capabilities	Retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MV's requirements	100%	100%
	Programme delivery	Milestone achieved per contract deliverables	>94%	85%
Strategic economic role	Local content	Local procurement as a % of total procurement on core programmes	82%	≥70%
	Investment in R&D	Self-funded R&D as a % of revenue	3.5%	≥3%
Business sustainability	Revenue	Increase in revenue year-on-year	10%	≥12%
	Profitability management	EBIT as % of revenue	5%	2%
	Cash from operating activities [1]	Cash flow from operations as % of revenue	(4%)	2%
	Order cover	Orders concluded in respect of the coming year as a % of revenue budget for that year (order cover)	60%	60%
	Operating expenditure [2]	Operating costs as a % of revenue	24%	22%
Developmental contribution	Contribution to economic transformation (including key supplier development)	B-BBEE contributor level	Level 3	Level 3
Human capital	Training spend	% of personnel cost	3%	3%
	Skills development – scarce and critical skills	Engineering trainees	52	–
	NGP commitments regarding skills development and training	Artisan & technician trainees	103	73
		DTA partnership artisan training	250 apprentices and 827 learners attended type training and advanced courses	330
Employment creation	Direct jobs created	Number of jobs created	80	50

[1] *The defence industry requires high working capital investment and makes use of advance payments to fund the initial phases of contracts. The related target was not met as advanced receipts expected from a local order did not realise.*

[2] *The operating expenditure target has been achieved if operating expenses are considered before once-off restructuring costs.*

Whilst Denel met the employment creation target as a result of new projects, there was a net decrease in jobs mainly due to restructuring, in particular that of the AMG contract. We believe that Denel is well positioned to deliver Shareholder value in the medium-term as it is a growing company, taking into account the strong order pipeline and requisite capabilities.

BUSINESS OUTLOOK

Defence spending around the world is expected to remain fairly flat except for emerging markets that are showing significant growth. The local defence budget will grow marginally, with increased spend expected on specific capital projects. Denel's traditional markets are showing remarkable resilience and increasing interest in Denel's products and services. The renewed interest in areas, such as border protection, maritime security and landward requirements, augurs well for Denel.

Denel has seen growth over the last two years and expects this trend to continue as certain export and local opportunities mature. Denel forecasts improved profitability over the short- to medium-term and increased contribution to the national developmental objectives of Government.

Denel will continue to restructure the aerostructures business and the future focus will be largely to exploit shared services, thus containing costs and at the same time aggressively pursuing new opportunities. The business projects to break-even in 2015/16, and will become profitable thereafter. This will positively impact the profitability of the group.

The balance sheet will continue to strengthen as Denel posts profits going into the future. We are exploring options to further strengthen the balance sheet and as such we are engaging the Shareholder.

Our focus for next year remains revenue growth, cost containment, supply chain optimisation, technology renewal, leadership and transformation.

5 OPERATIONAL REVIEW

OPERATIONAL OVERVIEW

Denel had various operational successes, including delivering on complex and strategic projects, as well as successfully negotiating key contracts in the different areas of business.

Operational performance was good considering that the traditional hockey stick effect, which is customary in the defence industry, was particularly steep this year with revenue in excess of R900m recognised in the month of March due to the late finalisation of orders. This resulted in under-recovery of labour during the early part of the year, as well as tremendous operational pressure to execute and deliver on the contracts during the last quarter of the financial year. Discussions with stakeholders to improve this position are on-going.

A large portion of Denel's revenue consists of development type work. This traditionally involves high-risk, low-margin contracts which puts Denel under pressure. During the year, we started in earnest with the execution of two large orders secured in the prior year. As these contracts mature and the revenue mix change from development to production, we foresee moving more people to these areas of the business.

MoUs were signed with a number of international industry players, including Alenia Aermacchi, Russian Helicopters, the Irkut Corporation and Ukraine-based Antonov. These agreements will play an important role in diversifying and enhancing technical capabilities in the future. Locally, Denel has deepened its relationship with SA industry players that complement its capabilities.

The year was not without its challenges, as a contract involving outsourcing of certain technical skills in aircraft maintenance was terminated with effect from 31 March 2013, resulting in close to 400 employees being affected and having to be retrenched. There has been no direct impact on operations in the short-term and will marginally impact future profits. A new contract has been entered into in respect of 139 technical employees involving a limited service support agreement for 2013/14.

PMP experienced industrial action on salary related matters and some 500 employees went on strike during January 2013 over a four-week period. This impacted operations and negatively affected the financial performance of the business unit and it did not meet its targets. An agreement was reached and employees returned to work on 21 February 2013.

The changing nature of conflict is driving demand for new technologies within the defence industry and Denel will be investing in new technology in order to retain its competitive edge. Our key technology developments, investment in core capabilities and our strategic approach to R&D have laid the foundation for future growth. Denel invested R528m on R&D during the year under review. This spend includes R142m self-funded R&D.

BUSINESS UNITS

DENEL DYNAMICS

SA is one of the few countries in the southern hemisphere to house the specialised technological capabilities required to be an innovator of sophisticated missiles – a competitive advantage honed over 45 years of experience. Denel Dynamics (DD) has proved itself as an innovative leader in advanced systems technology. The core business covers tactical missiles and precision-guided weapons. A wide range of products and world-class facilities, excellent customer support record and a formalised quality control system add up to an impressive capability in the design, development, manufacture, supply and provision of services. Dynamics UAVS designs, develops and manufactures competitive tactical unmanned aerial vehicles and high-speed target systems. Dynamics Integrated Systems Solutions is a system integrator of complex systems with a broad spectrum of skills to address higher order systems at capability level, addressing not only system performance, but also in-service sustainability.

DENEL DYNAMICS	2013 Rm	2012 Rm	Variance Rm
Revenue	999	791	208
Export revenue	442	251	191
EBIT	21	40	(19)
Confirmed order book	4 441	714	3 727
Workforce complement headcount	837	888	(51)

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES, ARE THE FOLLOWING:

The current range of missile 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, precision-guided munitions and the Raptor II stand-off weapons. The UAVS range of products and systems includes Seeker II+ and Skua high-speed target drone systems, as well as Seeker 400 tactical UAVS currently under development. The range of products and systems includes a ground-based air defence system. The air defence system provides an advanced, integrated air defence capability based on proven products.

KEY HIGHLIGHTS AND SUCCESSES INCLUDE THE FOLLOWING:

- Dynamics concluded export order contracts for both Umkhonto to the value of R700m and Mokopa to the value of R360m.
- The development of the A-Darter missile is on track for production to commence in 2013/14. Final missile qualification and performance validation is under way to achieve critical technical milestones.
- The latest version of the Ingwe anti-tank missile made its international debut at the IDEX defence show in Abu Dhabi in February 2013. The new Ingwe Portable Launch System (IPLS) enables the missile to be fired from a light vehicle or from a tripod. This greatly increases the flexibility of use and cost-effectiveness of the Ingwe missile system.
- Following the flight testing during June 2012, the Al-Tariq weapon system will now be cleared for configuration on an international customer's aircraft within the operational flying envelope successfully evaluated.
- On 20 September 2012 a joint venture was announced at the AAD exhibition with the UAE government-owned, Tawazun Holdings with the establishment and initiation of Tawazun Dynamics LLC.
- Dynamics was able to strengthen its strategic relationship with its Brazilian colleagues through the IBSA joint working groups. These engagements may lead to the future joint development of different variants of missiles.
- The 2012 group of engineering interns made radical progress towards potential participation and contribution to space engineering development in SA with their development of a cube sat and ground station.
- Continued progress on Seeker 400 development programme with the achievement of the critical design review.
- Deployment of Seeker II at Kruger National Park to assist with combating rhino poaching.

DENEL AVIATION

Denel Aviation (DAv) is the original equipment manufacturer (OEM) of the Rooivalk combat support helicopter and design authority of the SAAF Oryx medium transport helicopter. DAv is also an accredited and certified provider of MRO solutions (including upgrades and systems integration) for both fixed and rotary wing aircraft, associated components and ground support equipment. DAv through the DTA provides advanced and type training, as well as apprenticeship training in several trades.

DENEL AVIATION	2013 Rm	2012 Rm	Variance Rm
Revenue	1 048	1 066	(18)
Export revenue	187	233	(46)
EBIT	39	37	2
Confirmed order book	2 801	2 414	387
Workforce complement headcount	806	1 196	(390)

Note: The financial indicators above represent the business unit performance, including intergroup activities. During the year close to 400 employees were retrenched following the restructuring of the AMG contract at the request of the customer.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES, ARE THE FOLLOWING:

- Eurocopter-accredited MRO service centre for the following Eurocopter military and civilian rotary wing aircraft: Super Puma AS332; Puma SA330; Squirrel AS350; Bo105; Alouette SE3160. Primary MRO provider for the South African Air Force (SAAF) Oryx and Rooivalk helicopters.
- Rooivalk OEM, Oryx and Cheetah design authority and comprehensive MRO engineering support, upgrade solutions and systems integration and design, development, certification and flight testing services.
- Lockheed Martin-accredited Hercules Service Centre for C-130 and L-100 aircraft with a sound and well-positioned infrastructure offering a wide range of MRO services for both transport and tactical fixed-wing aircraft, including the Cheetah and Mirage fighter aircraft platforms.
- Accredited Eurocopter dynamic component repair and overhaul centre offering depot-level maintenance of avionics, electrical, oxygen and hydro-mechanical components. The facility is also accredited to carry out repairs and calibration of ground support and test equipment.
- The DTA is situated on the Kempton Park campus and provides advanced and type training and apprenticeship training for the aerospace, engineering and defence industries.
- Accredited MRO centre for Russian Helicopters in Africa for the Mi-8 and Mi-17 variants of helicopters.

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- Completed retrofit of final Rooivalk aircraft to the certified Mark 1F baseline and delivered the aircraft to the SAAF. The formal process to initiate primary contract closure is underway.
- Multi-year orders for the SAAF base load platforms of Oryx, Rooivalk and C-130 have been placed.
- The Cheetah aircraft exported to a foreign customer have completed the first full year in the support phase after the aircraft complement was commissioned in November 2011.
- Significant export orders out of the African continent were received signalling the success of the Africa strategy, including repeat business from some key customers in southern and eastern Africa.
- MoU was concluded between Russian Helicopters and DAv on 26 March 2013, leading to the successful launch of DAv as an accredited Russian Helicopters MRO centre in Africa.
- The total complement of DTA apprentices is 207 spanning through the different trades and disciplines with 79% of the local intake from the designated groups.

DENEL LAND SYSTEMS

Denel Land Systems (DLS) is a systems designer and integrator, as well as subsystem supplier for artillery, rapid-fire small- and medium-calibre weapons and combat vehicle systems. The Mechem business unit is a global leader in creating a safer environment through the provision of clearance solutions of ERW, as well as mine and ballistic protected vehicle design and manufacture to customers, such as the United Nations (UN), other international agencies, governments and commercial customers globally. DLS is a leading systems supplier and manufacturer in the landward defence and armoured vehicle market.

DLS	2013 Rm	2012 Rm	Variance Rm
Revenue	988	848	140
Export revenue	757	547	210
EBIT	57	43	14
Confirmed order book	3 456	506	2 950
Workforce complement headcount	549	482	67

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES, ARE THE FOLLOWING:

- High-end technology and engineering capabilities to take complex systems and products through their entire lifecycle, providing product and logistic support, including qualification, maintenance, upgrades and eventual decommissioning, as required, i.e.:
  - The development of the "Badger" family of new generation Infantry Combat Vehicles (ICV), under Project Hoefyster;
  - Utilising state-of-the-art, modular combat turret variants, equipped with home-grown GI-30 rapid-fire cannons (30mm CamGun) and 60mm breech-loading long-range mortar systems;
  - Integrating Ingwe anti-tank missile system into the anti-tank variant of the Patria AMV 8x8 armoured modular vehicle platform.
- Other products and systems include artillery systems, combat turrets and rapid-fire small- and medium-calibre weapons, of which a wide range of highly competitive, world-class products are available.
- A range of technologies, services and products in the ERW clearance applications. The technologies employed include manual demining, battle area clearance (BAC), stockpile destruction and explosive ordnance disposal (EOD), vehicle-mounted demining, mechanised demining, landmine surveys, range clearance, quality assurance and victim assistance.
- Mechem explosives and drug detection system (MEDDS), a unique remote scent detection capability, used in the identification of mines, explosives, drugs and other contraband, thus significantly improving the success of detecting banned and dangerous substances.
- The design and manufacturing of mine-protected vehicles, e.g. Casspir.

KEY HIGHLIGHTS AND SUCCESSES INCLUDE THE FOLLOWING:

- Good progress noted regarding the placement of the Hoefyster production contract that is significant for the sustainability of some of the landward capabilities.
- The first turret was shipped to the customer for further assembly, a major milestone in the delivery to a Southeast Asia customer.
- The acquisition of a majority stake in LMT, a local vehicle engineering and manufacturing company, enhancing Denel's vehicle manufacturing capability.
- The successful demonstration of the new 60mm long-range mortar system, to a Middle East country, which holds significant potential for export business.
- Mechem trained dogs to assist in anti-rhino poaching missions.
- Completion of various demining or ERW clearing projects in various African countries, delivering large tracts of land and roads clear of mines and other ERW. This supports these countries and their citizens in returning to normality.
- The development of a new generation Casspir vehicle (Casspir NG2000) which has created a great deal of interest, especially in the African market.
- The life support business has expanded with new contracts with UN humanitarian organisations in Somalia.

PRETORIA METAL PRESSINGS

Pretoria Metal Pressings (PMP) is an integrated mass-manufacturer of small- and medium-calibre ammunition and technology-related products for military and commercial use. PMP's products are widely used by many customers, including the SANDF, the SAPS and other security agencies, locally and abroad. These include small- and medium-calibre ammunition for soldiers, air defence systems, fighting vehicles, helicopters, fighter aircraft and navy vessels. PMP also manufactures crew escape systems and power cartridges for local and international customers.

The company supplies handgun and rifle ammunition to the commercial sector, with its hunting ammunition being acclaimed by local and international users. It also provides the mining industry with drill bits and 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 manufacturing of detonators for the mining industry.

PMP	2013 Rm	2012 Rm	Variance Rm
Revenue	531	499	32
Export revenue	185	130	55
EBIT	-	8	(8)
Confirmed order book	531	254	277
Workforce complement headcount	1 195	1 424	(229)

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

MAIN RANGE OF PRODUCTS INCLUDES THE FOLLOWING:

- Small-calibre ammunition ranging from 5.56mm to 12.7mm and medium-calibre ranges of ammunition from 20mm to 35mm that conform to international military standards.
- Percussion caps of all types, as well as links for various small- and medium-calibre rounds.
- Power cartridges, rocket motors and canopy fragilisation systems for the safe ejection of pilots from aircraft.
- Probit rock drill bits for the mining industry.
- Primary explosives and explosive products for commercial use in the private sector.
- PMP's non-ferrous foundry and rolling plant produces up to 80 tons of brass strip daily. A major portion is used for the manufacture of ammunition by PMP itself or by customers procuring brass cups and discs from SA, with the remainder of the brass strip sold to the SA commercial market.
- Pro-Amm, Standard, Super and African Elite ranges of hunting ammunition have established a reputation for quality, accuracy and reliability in SA, as well as in the European and United States (US) markets. The business unit's apt slogan is 'Masters of the Ammunition Art'. The Kalahari Elite range was launched during the year, mainly for use over longer distances.

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- The business unit continued to invest in new technology manufacturing equipment with a positive effect on manufacturing costs. R18m was spent on additions/replacements, and the state-of-the-art modern primary explosive facility that was completed last year, is now in full production.
- After completing the development of the PRAC-T, APCI-T and SAPHEI-T of the 30 x 173mm rounds for Project Hoefyster in 2012, good progress has been made on the HEI-T round in order to complete the required family of rounds for this major project.
- The product development of the ammunition for the 20 x 42mm NEOPUP weapon has also been completed. This weapon and ammunition are ideally suited for Special Forces and anti-pirate campaigns.
- PMP's safety record remains excellent. The LTIFR at end March 2013 was 0.22, which puts PMP amongst the top 5% of 'safe' companies in the world.

DENEL AEROSTRUCTURES

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

DAe	2013 Rm	2012 Rm	Variance Rm
Revenue	262	260	2
Export revenue	189	122	67
EBIT	(46)	(74)	28
Confirmed order book	1 619	191	1 428
Workforce complement headcount	396	382	14

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

MAIN RANGE OF PRODUCTS, SERVICES AND ACTIVITIES INCLUDE THE FOLLOWING:

- The design, qualification, industrialisation, detail manufacture and assembly of the Airbus A400M wing-to-fuselage fairing (WFF) and fuselage top shells (TS), providing DAe with long-term base load order cover.
- The manufacture and assembly of the empennage for the Gulfstream G150 aircraft.
- Providing engineering support and parts manufacture for the Rooivalk combat support helicopter programme.

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- The A400M WFF and TS contract amendments, which have been negotiated to be commercially viable, were signed by DAe and Airbus during the year.
- As part of the contract renegotiation commitments, Airbus also agreed to continue with the transfer of the ribs, spars and sword (RSS) work package to DAe.
- DAe secured an additional commercial work package relating to the composite winglets for a reputable US business jet manufacturer. The contract represents an important milestone for DAe as it enters into the North American business jet aerospace market.
- Various other restructuring activities took place during the year under review, such as the footprint consolidation project whereby the rental footprint was reduced from 54 000m^2 to 25 000m^2. This restructuring activity has ensured more sustainable rental fees and a lean organisation for DAe going forward. The project involved a major reorganisation of DAe's world class industrial capabilities.
- DAe is recognised as a reliable on time and on quality supplier in the Airbus global supply chain network. As such it has been requested to quote on additional Airbus work packages, such as the A400M wingtips, the A320 belly fairing and the A320 composite pylon parts. Securing these work packages would provide for additional revenue volume in support of the DAe business plan for the coming years.
- DAe has attracted major players in the global aerospace industry to visit the facility in order to initiate strategic relationships. Amongst these players are Boeing, Alenia Aermacchi, SONACA, RUAG, Hawker Beechcraft, Sukhoi, etc.
- The SAAB and AgustaWestland programmes were concluded in November 2012.

OPERATIONAL REVIEW

DENEL OVERBERG TEST RANGE

Denel Overberg Test Range (OTR) is a versatile test range for missile and aircraft that specialises in rendering performance evaluation and verification services on in-flight systems. It provides support for the qualification of airborne systems, as well as validating the operational effectiveness of military systems for SA's military-industrial users, international defence forces and armament industries.

OTR	2013 Rm	2012 Rm	Variance Rm
Revenue	85	102	(17)
Export revenue	18	47	(29)
EBIT	4	6	(2)
Confirmed order book	85	45	40
Workforce complement headcount	155	166	(11)

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

MAIN RANGE OF PRODUCTS, SERVICES AND ACTIVITIES ARE AS FOLLOWS:

- Flight tests on sophisticated missile, rocket, bomb and guided munitions systems.
- Evaluation and measurement of aircraft performance, avionic system evaluation, carriage and release clearance of ordnance and other payloads.
- Measurement of trajectories of all types of bombs, as well as other guided and unguided munitions.
- Execution of anti-tank tests, helicopter-based tests, and electronic warfare tests.
- 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.

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- Participated in the first series of tests of the Umbani development programme.
- Two international test campaigns for a European and a Southeast Asian customer, involving testing of an advanced ground-to-air missile system and an unqualified UAV system, were conducted.
- Contracted by France's Centre National d'Etudes Spatiales (CNES) to provide remote telemetry support from Invercargill, New Zealand during the launch of the ATV4 spacecraft.
- Provided telemetry support during the VEGA/Demosat (VV02) launch from French Guiana.
- Maintained its ISO9001:2008 and ISO14001:2004 certification, which underlines its commitment to quality service delivery within environmental management principles.

ASSOCIATED COMPANIES

RHEINMETALL DENEL MUNITION (PTY) LTD

RDM (49% shareholding) specialises in the development, design and manufacture of large- and medium-calibre ammunition and is a world leader in the field of artillery, mortar and infantry systems and plant engineering. Its business focus is on Asia, the Middle East, South America, SA and African countries.

RDM	2013 Rm	2012 Rm	Variance Rm
Revenue	1 295	963	332
Export revenue	922	518	404
EBIT	123	33	90
Workforce complement headcount	1 632	1 554	78

MAIN RANGE OF PRODUCTS, SERVICES AND ACTIVITIES ARE AS FOLLOWS:

Its product portfolio includes large-calibre ammunition (76mm to 155mm), artillery projectiles, propellant, charges and pyrotechnic carriers, mortar bombs, 40mm grenades, rocket motors, safety and arming devices and various missile subsystems.

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- Upgrade and modernise RDM facilities with positive results on safety, environment and productivity with a decrease in maintenance cost. A new acid plant has been successfully commissioned in Wellington.
- Good progress has been made on the new generation 60mm and 81mm insensitive munition mortar developments, which has established RDM as the designated mortar house of Rheinmetall.
- RDM remains centre of excellence in Rheinmetall and Denel for all 60mm, 81mm and 120mm mortar, as well as 155mm artillery systems worldwide.

TURBOMECA AFRICA (PTY) LTD

TMA (49% shareholding) is the world leader in design, manufacturing and sale of gas turbines for small-and medium-powered helicopters, and has 50 years' experience of cooperation in SA since the first Artouste II engine for an Alouette II in 1960. In civil aviation, 34% of SA turbine helicopters are fitted with TMA turbo-shaft engines. In military aviation, 75% of SA turbine helicopters are fitted with TMA turbo-shaft engines like Oryx, Rooivalk and A109 LUH.

TMA	2013 Rm	2012 Rm	Variance Rm
Revenue	394	345	49
Export revenue	177	161	16
EBIT	83	53	30
Workforce complement headcount	265	240	25

MAIN RANGE OF PRODUCTS, SERVICES AND ACTIVITIES ARE AS FOLLOWS:

- Manufacturing of gears, shafts and five-axis high-speed machining for gearbox casings for Safran group and Rolls-Royce.
- MRO, engine test facilities, parts repair and accessories of Makila, Turmo and Arrius engines.
- Sole engineering centre for excellence for Artouste and Turmo engines.
- TMA maintenance centre renders a 24-hour customer service over Sub-Saharan Africa.

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.
- The integration of heat treatment and surface treatment by mid-2013 will help TMA to raise its profile in manufacturing and MRO parts repair.

CASSIDIAN OPTRONICS (PTY) LTD

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

CASSIDIAN	2013 Rm	2012 Rm	Variance Rm
Revenue	384	431	(47)
Export revenue	301	367	(66)
EBIT	18	27	(9)
Workforce complement headcount	272	277	(5)

MAIN RANGE OF PRODUCTS, SERVICES AND ACTIVITIES ARE AS FOLLOWS:

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

KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- Continuous improvements in manufacturing efficiencies.
- Certification according to EN9100:2009 for design and manufacture of products for airborne applications maintained.
- Certification by South African Civil Aviation Authority (SACAA) for design and manufacturing organisation.
- Certification according to ISO14001:2004 for environmental management.

6 GOVERNANCE

CORPORATE GOVERNANCE

The board is committed to sound governance and ensures that the group's business is conducted in accordance with the highest standards of corporate governance.

Risk management and internal control systems are in place, have been designed in accordance with best practise and in compliance with King III recommendations, as well as the governance requirements of the Companies Act no. 71 of 2008 (Companies Act) as amended. Denel adheres to the King III report on corporate governance.

Governance principles and the main duties of the chairman, committees and GCEO are clearly documented. The board charter includes a schedule of matters reserved for the board and the terms of reference of various board committees.

The governance framework has been developed to meet the group's strategic objectives, compliance requirements, balancing the interests of stakeholders, minimising and avoiding conflicts of interest, and practicing good corporate behaviour. Sound corporate governance practices are implicit in our values, culture and processes.

The group is managed in an efficient, accountable, transparent and ethical manner. This ethos is embedded in all the group's activities and thus Denel's governance framework encompasses more than compliance with legislation. This has been confirmed through recognition for good governance and for excellence in corporate reporting by two independent governance reviews. Denel was rated as a leading and well governed SOC by the Centre for Corporate Governance in Africa at the University of Stellenbosch among 21 Schedule 2 companies, in a report published on 11 October 2012. Furthermore, Denel was recognised for excellence in corporate reporting, achieving top position in the integrated report disclosures for ethical leadership, corporate citizenship and board remuneration. The review was conducted by Nkonki Inc. in collaboration with academics and results were released on 15 June 2012.

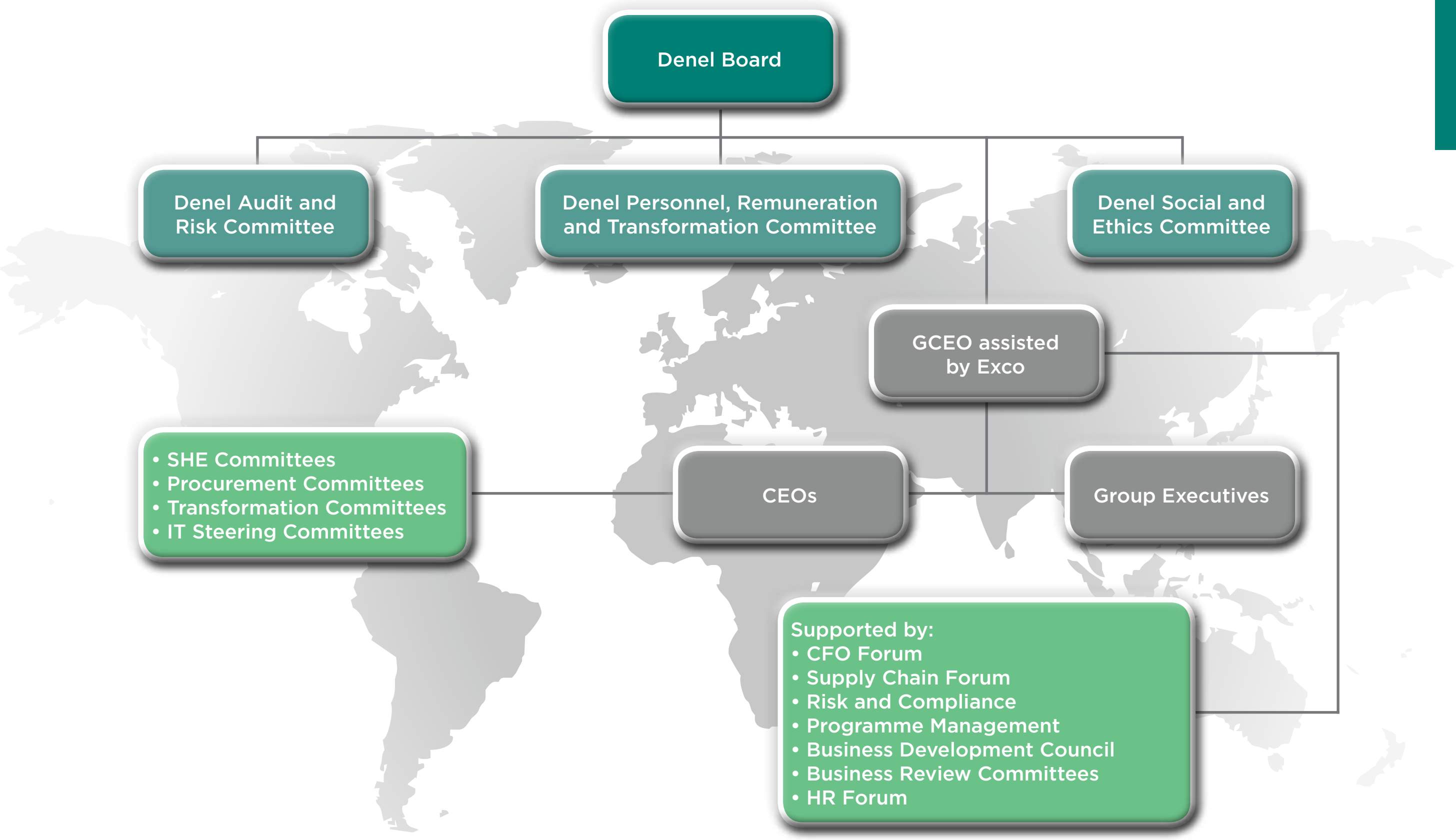
RESPONSIBILITY AND ACCOUNTABILITY

The board provides leadership and strategic oversight, and oversees the internal control environment sustaining value to the company's Shareholder and stakeholders. The board ensures adherence to principles of good governance and accountability as espoused in King III and its board charter. All of the members of the board are individually and collectively aware of their responsibilities to the group's stakeholders, and each director brings experience, independence and judgement. The board ensures regular review of its performance and core governance.

During the year under review, the governance structure was streamlined in order to optimise governance efficiencies. The governance structure is as follows:

- The Denel board has delegated certain responsibilities to appropriate board committees to support itself in its oversight responsibility.
- Statutory boards and relevant subcommittees are in place at subsidiaries.
- The Exco, inclusive of group executives and business unit CEOs addresses critical and material business issues.
- Business units' Excos deal with operational issues and elevate specific matters to Exco.

A schematic illustration of the governance structure is depicted below:



The day-to-day governance is the responsibility of Denel's management, which regularly reports to the board and its subcommittees. The board and the respective committee chairmen play an important role in addressing the governance issues that arise from time to time. These board members have regular interactions with executive directors, senior management and other stakeholders.

BOARD STRUCTURE

The group has a unitary board, comprising of two executive directors, the GCEO and the GFD, as well as 13 non-executive directors, who all meet the board's independence criteria in terms of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the group.

APPOINTMENT AND RETIREMENT OF DIRECTORS

The Shareholder appoints the chairman and non-executive directors. The executive directors are appointed by the board and their appointment approved by the Shareholder.

The Shareholder reviews the composition of the board on a yearly basis, which ensures the rotation of directors at appropriate intervals and the board remains dynamic in its thinking and abilities. The term of office for the non-executive directors is a period of three years. It is subject to an annual review by the Shareholder and confirmation at the annual general meeting (AGM). Retiring non-executive directors are eligible for re-appointment and their retirement is staggered to ensure continuity. The executive directors comprise the GCEO and GFD. The GCEO has a three-year contract, whereas the GFD is a permanent employee.

In appointing the non-executive directors, the Shareholder takes cognisance of the group's needs in terms of skills, experience, diversity, size of the company and demographics. The board comprises 88% historically disadvantaged South Africans and 33% female members, details of all board members can be found on pages 16 to 19.

Ms Sonja Sebotsa resigned from the board on 13 March 2013 to attend to other business commitments.

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

The executives have contracts of employment with the company and are subject to Denel's conditions of service. The non-executive directors have their appointments formalised through a letter of appointment from the Shareholder. The appointment letter indicates the non-executive directors' term of office, as well as information pertaining to their remuneration.

Remuneration for non-executive directors is based on the Shareholder remuneration guidelines, approved by the Shareholder representative, and confirmed at the AGM. The Shareholder approved a 4.5% increase for the non-executive directors at the July 2012 AGM. Denel pays non-executives a fee based on their attendance of meetings. Details on the remuneration of executive and non-executive directors are presented in the *remuneration* section on pages 66 to 67.

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

The independence of directors is considered with reference to ensuring that directors act in the best interest of the company as guided by the King III report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is considered at every board meeting, and evaluated every year by a firm of governance experts as part of the board's effectiveness review.

The effectiveness of the board is reviewed on an annual basis. The areas that are assessed include:

- 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 of the board;
- Communication between meetings;
- Visible corporate governance; and
- Stakeholder relationships.

The 2012/13 review confirmed that the board was effective in performing its oversight role and that the necessary structures and processes are well established and functional. The overall opinion indicated that Denel has a well-functioning and effective board. The evaluation also highlighted that the board is fulfilling its role and responsibilities, and discharging its accountability satisfactorily in comparison to other boards, including private sector boards. The results of the review were considered by the board. These results were submitted to the Shareholder representative to consider, in addition to the performance against the Shareholder's compact and the company strategy, as part of the decision regarding the composition of the board. The Shareholder's decision regarding the non-executives for 2013/14 will be discussed at the AGM scheduled for July 2013.

MANAGING CONFLICT OF INTEREST

The board subscribes to the principle of effective management of conflicts of interest and that fundamental conflicts should be avoided. Conflicts are declared annually by the individual directors in a register which is presented at the AGM for consideration. At each meeting directors declare their interests on any agenda item to prevent personal interests of a director taking precedence over those of the company. Board members who have personal interests in a matter under discussion recuse themselves from the meeting. A similar practice applies to all employees of the group.

BOARD INDUCTION AND SHARING OF INFORMATION

New directors undergo a detailed induction to ensure a comprehensive understanding of Denel's legislative framework, governance processes, delegation of authority and business operations. Directors are continuously briefed on relevant new legislation and regulations. The induction and continuous training includes the board meetings being held at different business units, to allow the directors an opportunity to interact with business units' executives. The practice includes circulating monthly reports to the board members to keep them abreast of developments outside of the scheduled board meetings. Directors are also invited to attend the exhibitions that Denel is involved in, allowing them to experience first-hand the products and services that the organisation offers.

The board together with the executive management also attends seminars and workshops to keep abreast of any new legislation, regulations, or information that they should be aware of in carrying out their duties.

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 board has four scheduled meetings annually and 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 matters 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 Exco attend the board meetings as and when required, 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 members' attendance for the period 1 April 2012 – 31 March 2013

	BOARD MEETINGS													AGM
BOARD MEMBER	TOTAL	SPECIAL 7 MAY 12	SPECIAL 21 MAY 12	19 JUN 12	SPECIAL 12 JUL 12	SPECIAL 7 AUG 12	PRE DENEL/ ARMSCOR 31 AUG 12	DENEL/ ARMSCOR 4 SEP 12	12 SEP 12	22 NOV 12	SPECIAL 7 FEB 13	13 MAR 13	14 MAR 13	19 JUL 12
Mr NR Kunene (Chairman)	11/12	√	√	√	√	A	T	√	√	√	√	√	√	√
Mr R Saloojee	10/12	√	√	√	√	A	A	√	√	√	√	√	√	√
Mr G Badela	12/12	√	√	√	√	√	√	√	√	√	√	√	√	√
Dr GC Cruywagen	11/12	√	T	√	A	T	√	√	√	√	√	√	√	A
Ms M Janse van Rensburg	9/12	√	√	√	A	√	A	A	√	√	T	√	√	√
Prof T Marwala	9/12	√	√	√	√	A	A	√	√	√	A	√	√	√
Ms ZB Mathenjwa	9/12	√	√	√	A	√	A	√	A	√	T	√	√	A
Mr F Mhlontlo	11/12	√	√	√	A	√	√	√	√	√	√	√	√	√
Mr NJ Motseki	10/12	√	√	√	√	√	A	A	√	√	√	√	√	√
Mr M Msimang	6/12	A	√	√	A	A	√	√	A	√	A	√	A	√
Mr BF Ngwenya	11/12	√	√	√	√	√	√	√	√	√	A	√	√	√
Prof SM Nkomo	7/12	A	√	A	√	A	√	√	√	√	√	A	A	√
Adv MS Ntshikila	6/12	A	√	√	B	A	B	B	A	√	√	√	√	√
Ms B Ndamase-Paledi	9/12	T	A	√	A	T	A	√	√	√	T	√	√	√
Mr MV Ratshimbilani	9/12	√	A	√	√	A	T	√	√	A	√	√	√	√
Ms SEN Sebotsa	5/10	T	A	A	T	T	A	A	√	A	A	R	R	√

A = Apology
B = Absent
T = Telecon
R = Resigned during the year

GROUP COMPANY SECRETARY

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

BOARD COMMITTEES

The board has established and delegated specific roles and responsibilities to three standing committees, namely, the A&R committee, the PR&T committee, and the social and ethics committee. All standing committees are chaired by independent non-executive directors.

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

Board committees have scheduled meetings at minimum three times a year. Executives are regular attendees at the board and committee meetings in line with their roles and responsibilities.

The minutes of the committee meetings are included in the board meeting pack for information to keep the board abreast of the activities of the committees. Significant matters discussed at these committee meetings are recommended and debated by the board prior to the board approving such matters.

AUDIT AND RISK COMMITTEE

Membership of the A&R committee, including its chairman, comprises only independent non-executive directors, and the executive directors are standing invitees to the 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. The appointment of members of the audit and risk committee are reconsidered and voted on at every AGM.

The committee's terms of reference are reviewed and updated annually for relevant new legislation and best practice. The terms of reference include the committee's mandate, which is to ensure the integrity of financial reporting, the adequacy of governance, soundness of the internal control environment and the robustness of risk management processes. The roles and responsibilities of the committee are detailed in the *report of the audit and risk committee* on page 112 and include the following:

- Reviewing the integrated report, including financial statements and considers reports of the auditors on the financial statements;
- Reviewing risk registers, paying attention to risks, mitigation actions, and overall risk management.
- Reviewing the effectiveness of the company's internal controls;
- Considering matters emanating from the company's ethics hotline, planned management actions and the results of enquiries;
- Agreeing the scope of the auditors' work and their fees;
- Monitoring the performance of the internal audit function;
- Considering the combined assurance model, assessing levels of assurance that is provided by auditors, regulators, management and other assurance providers;
- Considering treasury controls and related risk management processes; and
- IT governance.

The committee chairman meets regularly with the external auditors, the group's internal auditor, and the GFD to consider the audit plans, the scope and status of the audits and 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 as laid out in its terms of reference.

The invitees to committee meetings include the two executive directors, internal and external auditors, the group treasury manager, the group risk and compliance manager, and other executives responsible for the company's operations when necessary. The CFOs of each business unit are invited to attend the committee meetings to ensure that all information pertaining to the relevant business units is considered and assessed by the committee. The audit and risk committee also meets with the internal and external auditors without the presence of management to enhance independence.

The audit and risk committee is also responsible for monitoring the combined assurance model detailing significant business processes, line management monitoring, internal audit and external assurances. This model is used to assess the appropriateness of assurance over risk/controls provided to the board. Discussions regarding the extent to which the various assurance providers rely on each other's work or where overlaps are unavoidable, take place continuously. Denel is in the process of strengthening some of the more critical management assurance processes to ensure they are effective and value-adding.

The committee fulfilled its responsibilities as set out in this report. Refer to the *report of the audit and risk committee* on pages 112 to 113.

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

Attendance at audit and risk committee meetings

BOARD MEMBER	AUDIT AND RISK COMMITTEE MEETINGS			
	TOTAL	13 JUN 12	8 OCT 12	22 FEB 13
Ms M Janse van Rensburg (Chairman)	3/3	√	√	√
Dr GC Cruywagen	3/3	√	√	√
Mr BF Ngwenya	3/3	√	√	√
Ms B Ndamase-Paledi	2/3	√	A	√
STANDING INVITEES				
Mr R Saloojee	2/3	√	√	A
Mr F Mhlontlo	3/3	√	√	√

A = Apology

SOCIAL AND ETHICS COMMITTEE

The board established a social and ethics committee and non-executive directors serve on this committee. The two executive directors, Exco members and relevant managers attend the committee meetings. The external experts as proposed in the regulations will be nominated and appointed by the board to this committee as and when necessary.

The committee held its first meeting on 13 June 2012, where the committee considered relevant issues, as per its terms of reference. The committee advises the board on good corporate citizenship and ethical relationships. Its responsibilities include:

- Evaluating policies and measures in place to prevent fraud and corruption;
- Reviewing the CSI strategies and progress thereon;
- Evaluating the stakeholder engagement model, monitor the status and from time to time assess effectiveness;
- Reviewing the transformation strategies, progress on initiatives and improvement plans; and
- Reviewing OHS policies and monitor effectiveness.

Having clarified its mandate, the committee at the meeting held on 4 April 2013 ensured that the committee met all its monitoring and reporting responsibilities within the annual cycle. The committee further considered the company's corporate and social investment, transformation and enterprise development initiatives, occupational health and safety, stakeholder management, as well as the ethics policy.

Attendance at social and ethics committee

BOARD MEMBER	SOCIAL AND ETHICS COMMITTEE MEETING	
	TOTAL	13 JUN 12
Prof SM Nkomo (Chairman)	1/1	√
Dr GC Cruywagen	1/1	√
Mr M Msimang	1/1	√
STANDING INVITEES		
Mr R Saloojee	1/1	√
Mr F Mhlontlo	1/1	√

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

Denel has a committee that oversees remuneration and transformation issues, referred to as the PR&T committee. The committee comprises 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.
- 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.
- Skills development and retaining critical skills and talent.

Details of the company's employment equity practices and performance during the year, as well as the challenges the group are faced with in this regard, are provided in this *people management* section on page 81.

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 *remuneration* section on pages 66 and 67.

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

The committee held three scheduled meetings and one special meeting during the 2012/13 financial year, as detailed below:

Attendance at personnel remuneration and transformation committee meetings

	PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE MEETINGS				
BOARD MEMBER	**TOTAL**	**SPECIAL 25 MAY 12**	**15 JUN 12**	**23 OCT 12**	**28 FEB 13**
Prof SM Nkomo (Chairman)	4/4	√	√	√	√
Mr G Badela	4/4	√	√	√	√
Adv MS Ntshikila	2/4	A	A	√	√
Mr MV Ratshimbilani	4/4	T	√	√	√
STANDING INVITEES					
Mr R Saloojee	4/4	√	√	√	√
Mr F Mhlontlo	4/4	√	√	√	√

A = Apology
T = Telecon

EXECUTIVE COMMITTEE

The Exco is chaired by the GCEO and includes all business unit CEOs as detailed on page 28. The responsibilities of the committee include overseeing the day-to-day management of the group's affairs, executing the decisions of the board, strategy development, review of the group's values, safety performance, operation and financial performance. The committee meets on a monthly basis.

Attendance at Exco meetings

EXCO MEMBER	EXCO MEETINGS													
	TOTAL	7 MAY 12	28 MAY 12	SPECIAL 26 JUN 12	SPECIAL 2 AUG 12	SPECIAL 3 AUG 12	27 AUG 12	SPECIAL 27 SEP 12	SPECIAL 18 OCT 12	29 OCT 12	SPECIAL 26 NOV 12	STRATEGY 12 FEB 13	STRATEGY 12 FEB 13	20 MAR 13
Mr R Saloojee	13/13	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr F Mhlontlo	13/13	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr J Morris	12/13	√	√	√	√	√	√	A	√	√	√	√	√	√
Mr VM Ngidi	6/13	√	A	A	√	√	√	A	√	√	S1	S1	S1	S1
Mr Z Ntshepe	9/13	√	√	√	A	√	A	√	A	√	A	√	√	√
Maj Gen (Ret.) OA Schür	10/13	√	√	√	√	√	√	A	√	√	√	A	A	√
Mr S Burger	13/13	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr I Dockrat	13/13	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr M Kgobe	11/13	√	√	A	√	√	√	√	√	√	√	√	√	A
Mr A van der Walt	12/13	V	√	A	√	√	√	V	√	√	√	√	√	√
Mr J Wessels	12/13	√	√	A	√	√	√	√	√	√	√	√	√	√
Mr C Wolhuter	13/13	√	√	√	√	√	√	√	√	√	√	√	√	√
Ms N Davies *	3/3	-	-	-	-	-	-	-	-	-	-	√	√	√

A = Apology
V = Videocon
S1 = Extended sick leave - passed away on 27 April 2013
** = Acting HR and Transformation executive; appointed as executive June 2013*

CODE OF ETHICS

Denel has a code of ethics that underpins the business practice to which all employees and suppliers are expected to adhere. The policy outlines:

- Conflicts of interest;
- Prevention of dissemination of company information;
- Acceptance of donations and gifts; and
- Protection of the intellectual property and patent rights of the company.

The policy outlines the disciplinary action (including dismissal or prosecution) that will be taken in the event of any contravention.

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 are reported to appropriate law enforcement agencies, e.g. the SAPS. For more detail on fraud prevention and related issues, refer to page 69.

The ethics matters are monitored and reported to the A&R committee, as well as the social and ethics committee. Denel is a signatory to the UN Global Compact, which includes an anti-corruption clause.

INTERNAL CONTROL

The board oversees the system of internal control within Denel, whereas the implementation and functioning of these systems rest with the executive management. The A&R committee is presented with a formal review of the effectiveness of the group's internal controls on a regular basis. This review is informed by the combined assurance matrix, which identifies significant processes and assurances that are being provided. There are reports from management on specific areas, internal audit, external audit and other independent assurance providers that are tabled from time to time.

INTERNAL AUDIT

The function of internal audit is to appraise the adequacy and effectiveness of Denel's systems of internal control. This function has been outsourced to an audit firm. There is an internal audit charter in place that regulates the interaction between the group, management, internal auditors and the board. The charter is tabled annually to the A&R committee for consideration and approval.

The internal auditors report administratively to the GCEO and have unrestricted access to the chairman of the group audit and risk committee and 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 in terms of the internal audit charter.

BUSINESS UNITS

Denel's businesses follow the Denel group policies, governance and financial control systems. The businesses comply with the PFMA, Companies Act and other applicable legislation, including that of foreign countries.

Business units are accountable to the GCEO. This is further enhanced by each business CEO being in the group Exco. Various forums are held regularly, e.g. the CFO forum, where not only operational matters are discussed, but also topics that are relevant to executive management and the leaders of the group. As indicated previously, to streamline the organisation and reduce costs, business units were integrated per campus and some of the subsidiaries were deregistered and integrated in other businesses.

REMUNERATION

The PR&T committee's responsibilities are to review the design and management of Denel's transformation, remuneration and reward principles, policies and implementation strategies so as to:

- Ensure that the group's executive directors and senior executives are fairly rewarded for their individual contribution to the group's overall performance.
- Demonstrate to all stakeholders 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 policies aimed at achieving the company's transformation vision, values and objectives are developed and implemented.
- Ensure that performance parameters of senior executives and executive directors are set and reviewed in accordance with the Shareholder's compact.
- Ensure that plans and strategies aimed at compliance with legislation that impact, or have the potential to impact on the company's rights are in place and implemented.
- Promote an organisational culture that affords all employees the development opportunities that will enable them to achieve their optimal levels of career development in the course of their employment with the group, recognising the diversity of the society within which the group conducts its business.

The PR&T 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.

EXECUTIVE REMUNERATION REVIEWS

The PR&T committee reviews the remuneration of the executives. In doing this review, the committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration provided by the DPE for SOCs. Annual salary increases averaged 6% effective 1 April and no increases have been effected to senior executives at this stage. There are engagements with the Shareholder regarding salary increases to executives in the context of the company performance.

The committee also reviews and recommends to the board for approval the variable remuneration pay-out based on the policy. Variable pay is a portion of employees' salary package that is at risk. Payment of variable pay is linked to the performance of the company and the individual. Individuals qualify for variable pay when performance targets are met or exceeded.

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

	FIXED REMUNERATION R'000	VARIABLE PAY R'000	CONTRIBUTIONS MADE R'000	2013 TOTAL R'000	2012 TOTAL R'000
EXECUTIVE DIRECTORS					
Mr R Saloojee *	3 365	1 892	419	5 676	1 283
Mr MT Sadik **	-	-	-	-	5 474
Mr F Mhlontlo	2 825	1 578	330	4 733	4 733
Sub total	**6 190**	**3 470**	**749**	**10 409**	**11 490**
PRESCRIBED OFFICERS					
Mr JV Morris	2 003	984	253	3 240	3 109
Maj Gen (Ret.) OA Schür	1 467	709	133	2 309	2 213
Mr ZN Ntshepe	1 671	852	210	2 733	2 249
Mr M Ngidi ***	1 234	634	184	2 052	-
Ms TP Mushungwa ****	-	-	-	-	1 256
Sub total	**6 375**	**3 179**	**780**	**10 334**	**8 827**
Total	**12 565**	**6 649**	**1 529**	**20 743**	**20 317**

* *Appointed during January 2012* ** *Resigned 31 January 2012*
*** *Appointed March 2012* **** *Resigned 31 December 2011*

NON-EXECUTIVE DIRECTORS' REMUNERATION

The PR&T committee assists the board in reviewing non-executive directors' fees for discussion with the Shareholder. Market benchmarks and the DPE's remuneration guidelines are used to determine and make recommendations on non-executive directors' fees for presentation at the AGM for consideration and approval by the Shareholder. At the AGM held on 22 July 2012, the Shareholder approved a 4.5% increase for the non-executive directors.

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

NON-EXECUTIVE DIRECTORS	2013 R'000	2012 R'000
Mr NR Kunene (Chairman)	738	602
Adv G Badela	228	257
Dr GC Cruywagen	215	338
Ms MJ Janse van Rensburg	252	417
Prof T Marwala	167	229
Ms Z Mathenjwa	128	186
Mr NJ Motseki	168	187
Mr M Msimang	147	236
Mr BF Ngwenya [1]	366	348
Prof SM Nkomo	201	308
Adv MS Ntshikila	155	206
Ms B Ndamase-Paledi	239	435
Mr MV Ratshimbilani	200	192
Ms SEN Sebotsa [2]	62	72
Total	**3 266**	**4 013**

[1] *The board member's fees include costs paid of R127k for board member development, i.e. attending executive security programme at SA National Defence College*
[2] *Resigned on 13 March 2013*

GOVERNANCE

RISK GOVERNANCE

Global and local events, such as fiscal and political trends, currency movements, technology advancements and regulatory changes affect business competitiveness and sustainability. These present a certain level of uncertainty as the organisation creates and preserves value to the Shareholder. Denel has put in place a process to ensure that risks and opportunities are effectively responded to and a balance is struck between growth, return and risks. Denel has infused risk management in the business culture and embedded it in the strategic and operational planning processes. Effective governance of risk has enabled the organisation, amongst others, to deploy resources and pursue its objectives whilst setting the tone for stewardship and ethical business conduct.

RISK GOVERNANCE PROCESS

Denel's enterprise-wide risk management process is based on the COSO framework and ensures a coordinated risk management approach throughout the group. The process entails continuous identification, evaluation, mitigation and monitoring of risk, using robust intelligence gathering processes and structures. The risk assessment process entails identifying risk, assessing exposure prior to implementing controls and assessing residual risk post implementation of the control measures. Denel adopts a combination of a top-down and bottom-up approach to risk assessment, and uses business units and corporate inputs to develop the risk profile.

The various levels of the organisation play specific roles in the governance of risk. The board is responsible for approving risk management policy and has delegated the role of governance of risk oversight to the A&R committee. The other board committees also play a critical role in the risk management process.

The executive management is guided by the delegation of authority in implementing systems of risk management. Denel has put in place a system of internal control, which includes financial and operational processes to manage and monitor risk. This ensures risks are mitigated at the appropriate levels of management throughout the group. Each business unit dedicates time at least twice a year to assess the internal control environment and attend to specific risk issues. No less than once a year, executive management undertakes a rigorous strategic planning process, which includes the identification of risks and opportunities and assigns responsibilities for mitigation, reporting and monitoring of risks, and reports to the A&R committee. The risk profile includes financial, programme management, safety management and other risks.

Financial risk management is governed by the corporate treasury policy and procedures manual approved by the board. This includes centrally managed cash resources, counterparty risk and utilising various financial instruments to hedge against interest and exchange rate risk. More detail is provided in note 33 of the *consolidated annual financial statements*.

Denel monitors programme management and related risks continuously and an executive at group level is responsible for providing strategic guidance and support to programme managers and programme management forums for inter-divisional learning. Programme management systems exist that identify and mitigate schedule, technical and resource management risks to provide early warning for possible cost overruns. Programme reviews are conducted regularly by executive and customer representatives.

Denel has adopted internationally recognised management systems, ISO9001, ISO14001 and OHSAS18001, on which workplace and product safety processes are based, as well as accredited processes and systems, some of which are prescribed by customers. An update on OHS and environmental issues is provided in the *sustainable development* section.

SIGNIFICANT RISKS

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

	RISK DESCRIPTION	MANAGEMENT PROCESS AND STATUS
1	Pressures on the local defence spend and the potential negative impact on orders. Risk regarding the retention of strategic defence capabilities.	Denel is implementing strategies to increase exports and access new markets. In addition, Denel is investing in R&D and innovation to leverage its technologies in new markets in support of export business. Whilst Denel is reducing dependence on the local market, it is committed to meet SANDF priorities.
2	Global developments and the current state of the world economy could negatively impact and/or delay export orders, and increase competition.	Implementing strategies aimed at achieving an optimal mix between local and export revenue by accessing new markets. Optimising business costs and investing in new capabilities to remain competitive.
3	The long-term nature of contracts and high working capital investment requiring a stronger balance sheet.	Focusing on strengthening the balance sheet as profits are posted. In addition, the business has been recapitalised and other measures are being explored in collaboration with the Shareholder.
4	Demand for high-end engineering and programme management skills.	Denel has implemented various initiatives, including employment equity and skills development, succession planning and mentoring to ensure that Denel is able to attract, develop and retain technical skills.
5	Programme, technical and schedule risks resulting from development and delivery of complex programmes over long periods.	There is an established programme management process, which includes frequent project reviews, change variation management process and customer reviews. These are to ensure that projects meet quality specification, and are delivered on time and within budgets.
6	Concluding complex and high risk contracts that do not ensure mutually beneficial business relationships.	Proposals and conclusions of contracts are closely monitored at a board level. Key risks are considered at that level and appropriate guidance provided to management.
7	Turnaround requiring strong entrepreneurial and commercial orientated organisational culture.	Various change management initiatives are implemented to encourage a commercial mindset. Performance indicators, both at company and individual level, are aligned to achieving a commercial organisational climate.
8	Managing competing stakeholder expectations in the context of long-term business strategic objectives.	Implementation of a stakeholder engagement strategy, which includes regular interaction with industry and relevant government departments on policy and industry regulatory matters. Feedback to and briefing of key stakeholders, including Parliamentary Committees on Defence and Public Enterprises. Standing meetings with employees and unions on matters of common interest. Interactions with the Shareholder representatives and key suppliers.
9	Dependence on fewer main customers and/or markets.	Denel is implementing strategies to access new markets, leveraging technologies for new products and markets, investing in R&D and innovation to leverage technologies in new markets in support of export business.

FRAUD AND CORRUPTION RISK

Fraud and corruption have adverse reputational, legal and financial implications for any organisation, and Denel is committed to dealing with it within its ranks. Denel has implemented a fraud response plan in line with the principles of good corporate governance and anti-graft legislation. The plan is founded on the organisation's value of integrity and principles of the UN Global Compact regarding the fight against corruption. Subsequent to the release of the Transparency International Anti-corruption Index 2011/12 for global defence companies, Denel assessed its fraud and corruption strategy to ensure that it was aligned with this benchmark and updated its policies accordingly.

Denel communicates its stance against fraud and corruption to its employees and business partners on an on-going basis. The social and ethics committee

plays a critical role in establishing acceptable business conduct, custodianship for assests, organisational values and overseeing anti-corruption mechanisms in Denel.

FRAUD AND CORRUPTION AWARENESS

In order to assist in detecting fraud and corruption, document and process reviews were conducted and various interactions held with management, to identify and assess areas and processes that are susceptible to fraud and corruption. Denel has implemented a system of financial and operational control to prevent fraud and corruption. This includes publication of policies governing delegation of authority, procurement, and employee ethics, among others to promote ethical conduct. The procurement management process includes evaluation and adjudication of tenders by appointed committees, the development of tender specifications, and declaration of interest by employees participating in the procurement process. This ensures transparency and integrity in the process. The employee ethics policy, fraud prevention policy and corporate values are continuously communicated to employees through internal newsletters and notice boards. Furthermore, Denel has security procedures to protect assets, and investigates incidents of fraud and corruption.

During the year under review, 390 employees received awareness training on the company's ethics programme covering corporate values, business conduct and offering and receiving business courtesies, amongst other things.

DETECTION OF FRAUD AND CORRUPTION

Denel has put in place a continuous control monitoring (CCM) system, that analyses transactions and identifies discrepancies in the procurement and payment environment which is susceptible to fraud and corruption. Management follows up discrepancies identied and takes corrective action.

Management continuously interrogates financial, HR, and inventory information to detect instances of fraud and corruption as part of the day-to-day control activities, and reports to the audit and risk committee. In addition, audits were conducted by external audit regarding potential conflicts of interest. These procedures found no evidence of fraud and corruption.

WHISTLE-BLOWING

Denel has a confidential hotline through which fraudulent and unethical behaviour may be reported. To report suspected incidents of fraud and corruption employees and stakeholders call 0800 20 48 80. The hotline is independently operated and all stakeholders are encouraged to make use of it. Despite high awareness regarding the hotline, the number of reports has been declining. However, it is comforting to note that the CCM process, diligent management assessments, as well as the supply chain related assessments conducted by external auditors as required by the Auditor-General are compensating measures that complement fraud detection.

Eight cases of alleged unethical behaviour reported were assessed and found not to be fraud-related.

Denel will continue to promote anti-fraud and anti-corruption awareness among employees and stakeholders.

LEGAL AND REGULATORY FRAMEWORK

Denel considers compliance with laws and regulations an imperative requirement for conducting business, especially in the defence industry. Denel's activities involving controlled items are governed by various laws, including the conventional arms control, non-proliferation of weapons of mass destruction, explosives, firearms control, occupational health and safety and environmental management legislation. Denel has put systems in place to ensure that its operations comply with applicable legislation. The system entails continuous identification and monitoring of laws and regulations impacting the business, updating policies and appointment of responsible persons for ensuring compliance. Executive management is accountable to the board for legal and regulatory compliance.

Controlled items are subject to export regulations in terms of the National Conventional Arms Control Act (NCACA). The NCACA is at the centre of the compliance programme to ensure that development, manufacturing and servicing permits, as well as marketing, contracting, import and export permits are obtained as required. These permits are issued at the discretion of, and after following a stringent evaluation process by, the National Conventional Arms Control Committee (NCACC), established in terms of an Act of Parliament.

There are new regulations, which we believe will tighten compliance even further. During the year under review, arms control compliance staff received awareness training on the new NCACA regulations. Denel is updating its compliance programme to meet the requirements of the new regulations.

Health, safety, environmental and quality management, as well as OEM accreditation systems are implemented as part of the compliance programme. More detail on OHS and environmental accreditations is given in the *sustainable development* section on pages 74 to 109.

7 SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT

Denel is committed to sustainable development, and responds to the economic, social and natural environmental imperatives where it conducts business. The focus for the year was to support the initiative to conserve energy. Accordingly, Denel participated in the 49M initiative, aiming to reduce electricity usage by at least 10%.

Our reporting on sustainable development is based on GRI guidelines and leading practice within the defence and aerospace industry. The *GRI content index* is provided on pages 104 to 109, and indicates Denel's reporting against core indicators. Where data measurement techniques are not in place, descriptions of the activities taking place are provided.

The group is proud of the positive contributions it continues to make, whilst managing its impact on the social and natural environments in which it operates. Denel has embraced responsible corporate citizenship, and conducts its business in a sustainable manner to preserve the future for all. Denel acknowledges that long-term sustainability is integrally linked to caring for community, employees and the environment. These principles are embedded in the group's corporate strategy and values, and reflected in the financial and economic decisions that are made by the group.

The board of directors, through the audit and risk, and social and ethics committees, understands, oversees and reports on the key strategies, risks and sustainability issues of the group. Sustainability practices are in place and business processes have been implemented at business unit level. These take into account all aspects of sustainability, including safety, health, environment, quality and social issues. Business unit policies and procedures take into account the nature and uniqueness of each business unit.

Denel actively identifies material issues through engagements with both internal and external stakeholders, and considers the group's risk management processes and feedback from sustainability indices. Key performances indicators (KPIs) are used throughout the group to measure and monitor performance towards achieving key goals and targets. The group executives are assigned responsibility to implement the KPIs and drive performance, as well as to ensure that processes for sustainable improvements are embedded within the key focus areas. The group's performance against KPIs as set out in the Shareholder's compact is provided in the *performance review* section on page 40. The group has focused on strengthening its balance sheet, revenue growth and its contribution as SOC to the NGP. However, Denel is cognisant of the fact that its long-term sustainability not only depends on addressing these issues, but is also limited to and dependent on social and environmental sustainability. The group's most significant and material issues are also discussed in the *directors' report*, and throughout this section.



Denel reviews its materiality framework analysis annually to ensure that the group's corporate responsibility programmes remain relevant and meaningful to the group's stakeholders, and reflects the changing landscape of corporate responsibility.

ECONOMIC CONTRIBUTION

Defence industry is critical to the economy as it boosts exports. Denel's mandate includes contributing to government priorities as articulated in policies and guideline documents, such as the NGP through targeted skills development and transformation, and IPAP through developing and maintaining advance manufacturing and aerospace capability. Denel also positively impacts international defence and trade relations with SA.

In line with the Shareholder's strategic intent, Denel contributes to the defence industry, as well as acts as a catalyst for advanced manufacturing in the broader economy and exports products to improve revenue. Denel furthermore acts as a key sub-contractor to international suppliers and serve a growing international customer base. Denel is expanding its commercial portfolio of products and services based on defence-related technologies mainly serving commercial customers in the general manufacturing and mining sectors. In addition, Denel maximises participation of local industry in its supply chain. Through these activities the group has a direct impact on the country's economic, social, human capital and natural environment.

The high technology and advanced manufacturing associated with defence industry is a contributor to converting the SA economy from a predominantly resource and services-based to a knowledge-based economy able to produce sustained economic growth in order to deal with SA's socio-economic challenges.

CONTRIBUTION TO THE DEFENCE INDUSTRY

Denel is of strategic relevance to national security due to its custodianship of key technologies, active R&D programmes, manufacturing and maintenance activities, as well as the associated human capital embedded in the group. Denel ensures strategic military independence for the country, as it is a preferred supplier of defence equipment and solutions to the SANDF. The group's products and solutions are designed and developed to meet unique end-user requirements, giving full lifecycle support, ultimately reducing cost of ownership and resulting in foreign exchange savings.

Denel is contributing to creating safer environments with products that have been tailor-made for Africa, the UN, other international agencies, governments and commercial customers globally.

INDUSTRIAL DEVELOPMENT

Denel plays a major role in contributing to the SA manufacturing and associated technology base. Innovation is the key to new industries, more jobs, and sustainable economic growth. Defence technology leads anything from mobile and satellite to data communication, robotics and countless more industries.

Denel's research, design, development, integration, qualification, certification and industrialisation are done primarily in-house. Significant elements of production are outsourced to the broader SA manufacturing industry and some businesses are vertically integrated with production commencing with raw materials through to final products.

R&D has a special economic significance in extending Denel's global footprint, apart from its conventional association with scientific and technological development. Investment in product development is critical to the competitiveness and long-term sustainability of the group. Denel invested R528m in R&D, either funded as an investment by the group, or funded through development contracts from the group's customer base, mainly the local customer. Denel is applying its capabilities, contemporary expertise and experience towards the future of defence-related products and services.

EMPLOYMENT AND SKILLS DEVELOPMENT

The Denel group employs 4 219 people (2011/12: 4 716), excluding those within associated companies, and is playing an important role in global trade in the defence industry. Denel provides a fertile ground for nurturing engineers, technicians and artisans, with most of these technical professions subsequently contributing to key national projects in transportation, construction and power generation, as well as wider manufacturing activities. Technology skills are a scarce resource in SA today, and the cost of developing personnel in this sector is extremely high. Denel further contributes to the critical national objectives of job creation, developing scarce skills in areas of engineering, artisans and management. More detail is provided in the *people management* section on pages 81 to 85.

ENTERPRISE DEVELOPMENT AND PREFERENTIAL PROCUREMENT

It is the policy of Denel to promote enterprise development by enabling suppliers from historically disadvantaged categories and SMMEs to participate in the mainstream of the SA economy. Denel puts back into the economy by means of its commitment to purchasing from and developing local suppliers. What is not generally known, is the additional downstream enabling effect on suppliers to compete for business in the commercial sector as a direct result of experience and capabilities gained through involvement with Denel.

The group's commitment to sharing its success with small and medium enterprises has gained momentum. Denel has improved on its preferential procurement and enterprise development score compared to the prior year, which is indicative of Denel's transforming supplier base. More detail is provided in the *transformation* and *supplier management* sections on pages 87 and 98 to 99 respectively.

TEN-YEAR REVIEW

The following table illustrates the ten-year financial performance. Whilst the company has experienced financial performance challenges over the past few years, there have been significant improvements since 2010/11. The performance for the year is discussed in the *performance review* on pages 36 to 41 and the *directors' report* on pages 117 to 120.

TEN-YEAR REVIEW (GROUP)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
INCOME STATEMENT										
Revenue	3 918	3 568	3 252	3 610	3 924	3 818	3 268	2 773	3 572	4 442
Profit/(loss) before net finance cost and income from associated companies	117	100	(314)	(162)	(463)	(233)	(387)	(1 076)	(1 315)	62
Net finance costs (before capitalised interest)	107	84	120	139	73	61	143	188	104	120
Depreciation	97	93	93	92	112	108	132	150	157	121
Profit/(loss) before taxation	82	49	110	(236)	(508)	(312)	(494)	(1 291)	(1 409)	(350)
Profit/(loss) after taxation from continuing operations	71	41	111	(246)	(533)	(321)	(507)	(1 311)	(1 416)	(384)
Taxation expense	(11)	(8)	1	(10)	(25)	(9)	(13)	(19)	(7)	19
Non-controlling interest in profit/(loss)	-	-	(47)	(65)	(91)	(13)	(1)	-	5	(7)
Profit/(loss) for the year	71	41	111	(246)	(533)	(347)	(549)	(1 363)	(1 561)	(378)
Cash flows before financing activities	(318)	210	(23)	(416)	(1 163)	222	(946)	(1 061)	(422)	(201)
STATEMENTS OF FINANCIAL POSITION										
Non-current assets	2 177	2 131	2 110	1 677	1 623	1 476	1 348	1 601	2 173	1 350
Current assets	4 497	3 420	2 921	3 343	3 107	3 607	2 616	2 724	2 410	2 742
Assets held for sale	104	91	7	-	9	58	540	352	68	-
Total assets	6 778	5 642	5 038	5 020	4 739	5 140	4 504	4 677	4 651	4 092
Current liabilities	2 465	3 659	3 704	3 671	3 446	3 081	3 000	1 938	2 888	2 347
Total equity/(deficit)	1 472	695	654	609	849	1 328	633	615	(16)	844
Non-controlling interest	8	-	-	(34)	31	102	6	7	7	9
Non-current interest bearing loans and borrowings	1 406	101	101	101	53	1	2	832	848	832
Current interest bearing loans and borrowings	507	1 865	1 845	1 943	1 074	234	833	14	520	76

TEN-YEAR REVIEW (GROUP) (CONTINUED)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
STATISTICS										
Total number of shares in issue (million)[1]										
Class A ordinary shares	1 000	1 000	1 000	1 000	1 000	1 000	976	849	402	402
Class B ordinary shares	225	225	225	225	225	225	40	40	40	40
Total shares	1 225	1 225	1 225	1 225	1 225	1 225	1 016	890	442	442
RETURNS (%)										
Operating profit/(loss) to revenue	3.0	2.8	(9.7)	(4.5)	(11.8)	(6.1)	(11.8)	(38.8)	(36.8)	1.4
Operating profit/(loss) to average total assets	1.9	1.9	(6.2)	(3.4)	(9.9)	(4.8)	(8.4)	(23.1)	(30.1)	1.5
Operating profit/(loss) to ordinary Shareholders' interest [2]	10.8	14.4	(48.0)	(26.6)	(54.5)	(17.5)	(61.1)	(175.1)	-	7.5
RATIOS										
Debt/equity ratio [3]	1.3	2.8	3.0	3.4	1.3	0.2	1.3	1.4	-	1.1
Current asset ratio	1.8	0.9	0.7	0.8	0.9	1.2	0.9	1.4	0.8	1.2
Net finance cost cover	0.8	0.7	1.2	(1.6)	(6.9)	(5.2)	(3.5)	(6.9)	(13.5)	(3.0)
Revenue per employee (Rm)	0.9	0.8	0.7	0.7	0.8	0.5	0.4	0.3	0.4	0.4
Number of employees	4 219	4 716	4 716	5 090	5 067	7 276	7 634	8 850	9 942	10 925

[1] *Refer note 22*

[2] *The 2013 ratio was calculated using the average ordinary shareholders' interest*

[3] *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 2013

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.

	2013		2012	
	Rm	%	Rm	%
Revenue	3 918		3 568	
Less: Cost of materials and services purchased	(2 190)		(1 960)	
Value added	1 728		1 608	
Add				
Finance income	36		61	
Other income	231		196	
Wealth created	**1 995**		**1 865**	
Distributed as follows				
Employees: Salaries and relevant costs	1 663	83.3	1 563	83.8
Providers of capital				
Interest on borrowings	143	7.2	145	7.8
Government				
Tax (refer note A)	21	1.1	23	1.2
Re-invested in the group for continuation and expansion	168	8.4	134	7.2
Depreciation (refer note 3)	97	4.9	93	5.0
Accumulated profit	71	3.5	41	2.2
Wealth distributed	**1 995**	**100.0**	**1 865**	**100.0**

Note A

Tax

	2013 Rm	2012 Rm
Tax paid and provided for:	21	23
Current tax	7	9
Total tax	11	8
Deferred tax	(4)	1
Rates and taxes paid to local authorities	14	14
UIF contributions by employer	6	7
Net skills development levy	7	7
	34	**37**
The total amount reflected above excludes the following amounts collected by the group on behalf of Government		
Net VAT	(15)	2
Charged on revenue	362	321
Levied on purchases	(377)	(319)
Employees' taxation	338	297
UIF contributions by employees	6	7
	329	**306**

PEOPLE MANAGEMENT

Denel's workforce is the cornerstone of the business and as such, people management is viewed as the key to business success. The attraction, development, retention and performance of a competent and motivated workforce are critical to achieving the strategic objectives of the group. Denel operates in the high technology environment and seventy percent of Denel's workforce comprises of highly qualified technical people.

Denel competes for its resource requirements as there are limited technical resources available in the country. This is exacerbated by the defence and aerospace industries being a somewhat closed market in both SA and globally as the required competence is developed over a long period of time. It is therefore imperative for Denel to be adept at attracting, developing and retaining this scarce talent if it is to achieve its goals of sustainable profitable growth, operational excellence and being a credible SA company.

Priority areas include:

- Sustaining the group's B-BBEE rating and improving employee diversity profile.
- Strengthening leadership through leadership development programmes.
- To ensure continuity of skills at all levels through improvement of talent management and succession planning.

EMPLOYEE PERFORMANCE

WORKPLACE PROFILE

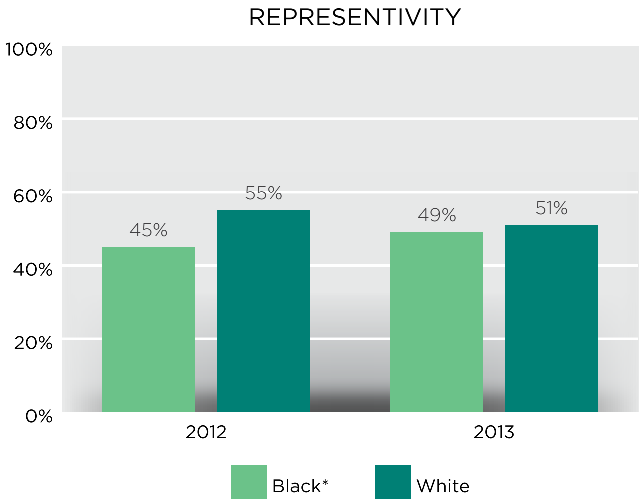
As at 31 March 2013, Denel had a total workforce of 4 219 (2011/12: 4 716) employed at the business units (excluding those employed by associated companies), of which 3 437 (2011/12: 3 509) are employed on a permanent basis and 782 (2011/12: 1 207) on a fixed-term contract. The table below illustrates the employee profile per job category:

JOB CATEGORIES	2013		2012	
	BLACK*	WHITE	BLACK*	WHITE
Executive management	8	4	6	6
Senior management	20	41	21	40
Management	73	236	76	236
Engineers	83	305	72	309
Technical (scientists, technicians & artisans)	1 251	1 157	1 325	1 450
Configuration	6	33	7	34
IT	27	26	24	24
Financial	20	40	24	45
Marketing	5	9	7	10
HR	3	9	6	8
Trainers	9	16	4	26
Security	54	18	57	19
Administrative	196	206	212	336
Trainees	130	18	116	19
General workers	197	19	180	17
Sub total	**2 082**	**2 137**	**2 137**	**2 579**
Total	**4 219**		**4 716**	

** Black refers to African, Coloured and Indian*

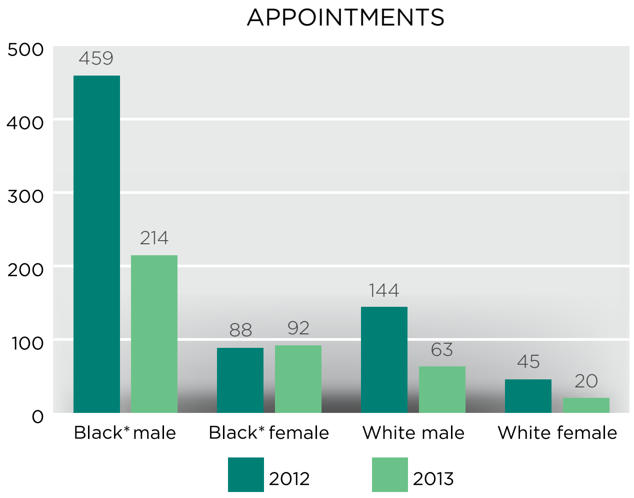
SUSTAINABLE DEVELOPMENT

The graph below depicts improved representivity within the organisation for 2012 and 2013:



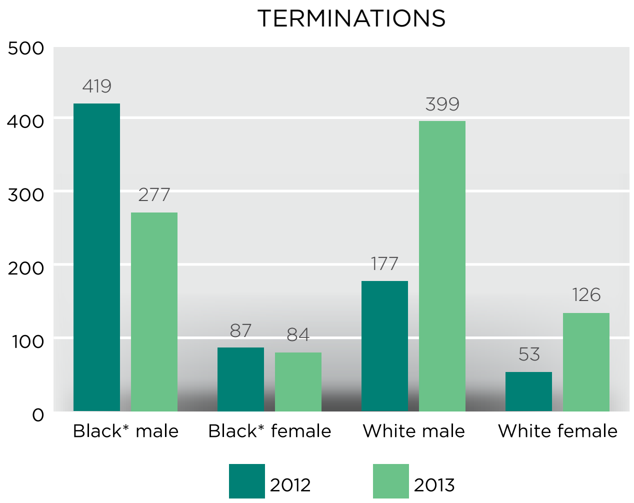
* *Black refers to African, Coloured and Indian*

The graph below illustrates appointments by race and gender:



* *Black refers to African, Coloured and Indian*

The graph below illustrates terminations, i.e resignations, retirements and retrenchments by race and gender:



* *Black refers to African, Coloured and Indian*

REMUNERATION, REWARD AND RECOGNITION

Denel's remuneration strategy is geared towards enhancing performance and retaining the best talent. Remuneration comprises of a guaranteed and a risk portion that is payable on achievement of both the company and individual performance targets. Denel has other mechanisms to ensure excellence and successes are recognised and celebrated. These are aimed at ensuring employees feel valued, and encourage additional effort. These vary and include performance awards and celebrations to small token payments used as immediate reinforcement of good performance.

EMPLOYEE BENEFITS

- DENEL RETIREMENT FUND

  Denel employees belong to the Denel retirement fund (DenRet), a defined contribution fund, which is a separate legal entity managed by a board of trustees. The retirement funding income is based on a percentage of the guaranteed package and is a basis for calculating pension contributions.

- DENEL MEDICAL AID

  The mandatory company medical aid scheme is Discovery Health. As the medical aid is compulsory, employees are exempt from any underwriting or waiting periods and are able to choose a health plan based on their individual needs.

POSITIVE EMPLOYEE RELATIONS

Denel is committed to sound employee relations and engages with employees and unions at both business unit and group level. Denel has formal relationships with three recognised trade unions, namely UASA, NUMSA and Solidarity, representing employees at various entities as depicted in the adjacent graph.

EMPLOYEE WELL-BEING

Employee well-being forms an important part of Denel's HR strategy and focuses on occupational health, physical and psychological well-being. All business units have a risk-based occupational health programme delivered through an occupational health clinic, which includes access to psychological counselling. Denel hosts wellness days to encourage employees to take responsibility for their health and encourages healthy living. During these events medical risk assessments are done and voluntary HIV counselling and testing is encouraged. Denel participates in the various national health campaigns, such as HIV/AIDS and cancer awareness.

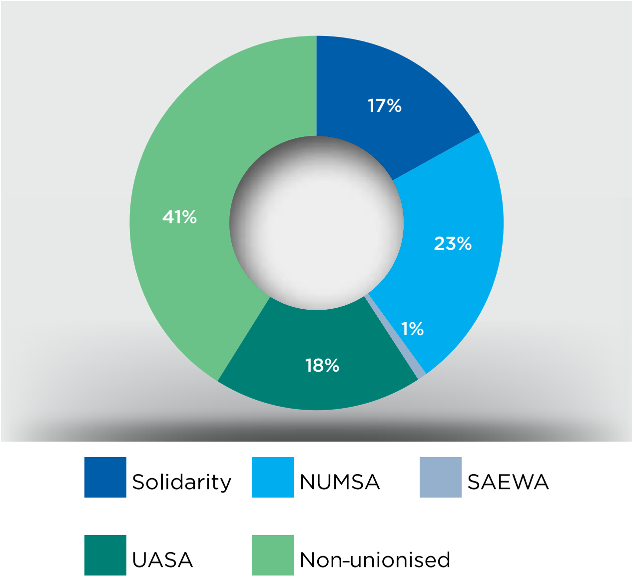
SKILLS DEVELOPMENT

Denel believes in a holistic approach to skills development, developing talent from school level through to professional qualification and on the job training. Denel requires high technology and unique technical skills, e.g. aerodynamicists and system engineers. The model is therefore qualitative rather than quantitative. Denel dedicates a significant amount of its own resources for skills development.

EMPLOYEE SKILLS DEVELOPMENT INITIATIVES

Denel spends 3% of its payroll costs for learning and development focussing on employees with critical and core skills and on young employees with potential. Denel spent R46m (2011/12: R49m) on employee skills development and learning programmes during the financial year.

UNION REPRESENTATION



- 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 of expertise. Various courses are identified and recommended to employees as part of personal development plans, taking into account specific job requirements.

- LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

  Denel has a leadership and management development programme in collaboration with Unisa. The programme is aimed at specific behavioural and functional competencies required to fit the group's leadership competency framework. In addition, all executives and senior managers from business units have gone through psychometric assessments and have received individual feedback, which outlined their various development needs. Leadership development mechanisms include executive coaching. Denel strongly believes that leadership development is a continuous process irrespective of the stage of an individual's career.

SUCCESSION PLANNING

Denel has a well developed succession planning and management framework. The framework ensures the creation of a pool of candidates for leadership roles within the organisation. The framework is also aligned to the leadership and management development programme of the group. Identified potential successors are put through the same developmental processes as those used for leadership and management development.

During the year deputy CEOs were appointed at each of the business units as part of the succession plan process. Potential successors are also identified and developed in technical roles. This is to ensure that there is continuity in the business units but also to address EE challenges. The appointment of the PMP and Dynamics deputy CEOs as business unit CEOs in the new year are examples of the success of this programme.

ARTISAN TRAINING

Denel's flagship programme is its artisan training academy, within DTA. DTA offers rudimentary training opportunities for the first year of apprenticeship in the following fields:

Aircraft avionician	Aircraft electrician
Aircraft instrument mechanic	Aircraft mechanic
Aircraft radiotrician	Aircraft structural worker
Electrician	Fitter and turner
Machine tool millwright	Tool-and jig-maker
Turner and machinist	Welder

DTA also offers SACAA-certified courses and several other advanced courses. 250 apprentices have been enrolled in various fields of artisanship during the past year. The PMP centre focuses primarily on the mechanical trades, such as fitter and turner, toolmaker and turner machinist.

BURSARIES

Our bursary offerings are a primary tool for bringing young engineers and scientists into the group to mitigate the ageing workforce risk. Students are taken into the bursary programme annually and are individually mentored and supported throughout their studies. Vacation work is also made available to these learners to familiarise them with a real workplace experience. It is our practise that the bursars who complete their university studies are employed within the group. The purpose of the bursary scheme is to have a readily available pipeline of qualified engineering students who (post-matric) can apply for engineering degrees in the following disciplines:

- Electronic;
- Mechanical;
- Industrial;
- Software/Computer; and
- Mechatronic.

Denel's hands-on approach ensures bursars are fully supported so that they obtain their qualifications and join the group. During this year, Denel had close to 80 bursary students in different years of study towards technical qualifications.

- ENGINEERING ACADEMY OF LEARNING (INTERNSHIP)

Denel runs an engineering academy as a means of ensuring that newly qualified engineers are afforded an opportunity to be mentored in a structured manner. This internship programme has an annual intake of 20 graduates. The academy is currently exploring possibilities of partnering with other institutions with a view of expanding the programme to accommodate more graduates. The programme is currently fully funded by Denel and is registered with ECSA for accreditation.

The EAL uses a multifaceted approach to develop graduates by combining formal courses, on the job training and a development project into a one-year internship programme for graduate engineers. Interns spend 50% of their time working within a department on actual projects, and the remaining 50% of their time executing a development training project and attending various training courses. A combination of internal and external training is tailored for the group and each individual in consultation with line management and mentors. The projects interns are exposed to, are structured to fast track exposure to development processes and also to ensure the interns understand the various aspects of product development.

Many of the interns become natural choices for employement due to the experience gained during the internship year. The projects the interns are involved in, encourage innovative thinking and assist with the development of competitive, technologically advanced products and services.

- VACATION WORKERS

Universities require engineering students to complete compulsory practical training in order to graduate. The general objective is for students to be exposed to more practical aspects of engineering, such as “hands-on” work in workshops or in the field, or practical technical assistance with research projects. To date over 60 students have been offered the opportunity to do vacation work within our business units over December and January for a six-week period, where each student is assigned meaningful project related work.

- COLLABORATION WITH TERTIARY INSTITUTIONS

Denel continues to strengthen relationships with universities and further education and training (FET) institutions. The group participates in various university career days and is looking at expanding this programme. Denel’s engineers are involved with universities as examiners and moderators and assist with project topics.

- WOMEN IN ENGINEERING

Denel partners with the SA women in engineering (SAWomEng), 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 also experience skills shortages.

TRANSFORMATION

Transformation is a business imperative that is implemented to ensure that change takes place. The strategic objective is to ensure the organisation has a leading, motivated, innovative and empowered workforce. The programme ensures that the environment is representative and diverse. This is achieved by targeted recruitment from designated groups, including gender, as well as implementing various organisational development initiatives, such as climate improvement programmes, employee surveys and B-BBEE initiatives.

Denel conducts employee organisational climate surveys and implements action plans for identified areas of improvement. The group has transformation committees at business units, whilst Exco is responsible for giving strategic direction and ensuring that transformation is achieved. Transformation forms a substantial part of the GCEO's and business unit CEO's performance contracts.

Denel's B-BBEE focus has been on improving employment equity, skills development and preferential procurement while maintaining progress on the other elements of the scorecard.

The illustration below is a diagrammatic representation of the Denel transformation programme which ensures that transformation is institutionalised. This approach has yielded the desired effect as outlined in our B-BBEE performance.

OBJECTIVE: ORGANISATIONAL EFFECTIVENESS
Transform our people into a motivated, innovative and empowered workforce with a commercial and performance-based mindset within a truly representative and diverse environment

- Race
- Gender
- Age
- Disability

- Career paths
- Leadership development
- Succession planning
- Mentorships

- Performance culture
- Commercial mindset
- Embrace diversity
- Creativity and employee loyalty

PROCESS
- Performance contracts include transformation key performance areas
- Organisational climate improvement initiatives
- Forums to monitor progress
- Annual internal and external audit conducted

DENEL'S PERFORMANCE ON B-BBEE

The group has been evaluated by Moloto BEE verification agency, which is a SANAS accredited agency.

Denel has retained a level 3 B-BBEE status for the year under review, demonstrating our commitment to transformation. Denel is particularly proud of this achievement as it was assessed based on the new B-BBEE targets, which are set based on more stringent requirements. Denel has achieved improved results in the preferential procurement element of the scorecard, which can be attributed to the appointment of the group executive supply chain manager, who ensures that our suppliers are diverse.

Employment equity and skills development remain a focus area for Denel with specific initiatives in place to ensure meeting these objectives. Denel will ensure governmental objectives of economic transformation are achieved by continued emphasis on skills development, preferential procurement, enterprise development and EE.

ENVIRONMENTAL RESPONSIBILITY

Denel is aware of emerging environmental developments and acknowledges its role and responsibility to manage, protect and rehabilitate the environment in which it operates.

Denel is also committed to meeting its present needs without compromising the ability of future generations to meet their own needs, providing a safer work environment and meeting its legal obligations.

Denel participates in Eskom's energy conservation scheme (ECS) and has signed the 49M pledge, where SOCs have committed to reducing their electricity consumption by at least 10% over the next 12 months and into the future. Denel appreciates that participation will not only assist the country in terms of alleviating the electricity supply constraints, but will also contribute to an environmental and financial sustainable future. Denel has made considerable progress in this regard as discussed in the *energy* section on pages 89 and 90.

Denel's key environmental objectives remain the following:

- Protection of species and habitats, and the conservation of biodiversity and natural resources.
- Protection of the environment against disturbance, deterioration, contamination or destruction as a result of human activity and structures.
- Providing a healthy working environment for its personnel.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

ENVIRONMENTAL POLICIES AND MANAGEMENT SYSTEMS

Denel has an environmental management policy based on the principles of ISO14001 that provide guidelines and outline the minimum requirements for each core business unit. The policy focuses on the continual improvement of environmental management activities and operations to minimise waste, prevention of pollution and care for the environment at business unit level.

Departmental managers and environmental officers ensure that environmental monitoring and controls are in place, identify shortcomings and implement remedial action on an on-going basis. Compliance with legislation is assessed on a regular basis through audits and management inspections. All incidents and potential incidents of non-compliance are logged, investigated and corrective actions taken.

Denel is pleased that there were no instances of non-compliance with environmental laws and regulations during the financial year and no fines were levied or non-monetary sanctions imposed.

EMPLOYEE TRAINING AND AWARENESS

Denel ensures that relevant employees attend environmental training courses, such as environmental awareness, including water conservation and energy saving tips, waste management, system audits, legal compliance, incident investigation, safe use in handling and disposal of hazardous chemical substances, as well as emergency readiness and response. Denel aims that employees take responsibility as individuals, understand their actions, realise what they can do, and that they do make a difference.

ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES

Environmental responsibilities are addressed throughout the design, manufacture, packaging and transporting processes. This is facilitated by the adoption of an integrated environmental management approach in all stages of the development process.

Environmental impact studies and environmental risk assessments are included in the business units' processes. As part of standard operating procedures all hazardous substances are contained in environmentally safe storage and handling facilities, which are reviewed on a regular basis. Segregation and separation of hazardous substances have been implemented and are reviewed on an annual basis.

ENVIRONMENTAL PROTECTION AND RELATED EXPENDITURES

The business units have spent approximately R14m on environmental protection and related expenditure for the year under review. These expenses included ISO certification, general and hazardous waste removal, ISO surveillance and legal compliance audits, emission and hygiene testing and various other environmental expenditures.

ENVIRONMENTAL SUSTAINABILITY

The environmental aspects that follow have been identified as material for the Denel group and are managed, monitored and reported on regular basis.

ENERGY

Denel was prompted by rising energy costs, supply constraints, environmental concerns and legislation to review its energy requirements and usage in order to reduce energy consumption. As highlighted earlier, Denel signed the 49M pledge and is committed to continuously reducing electricity consumption.

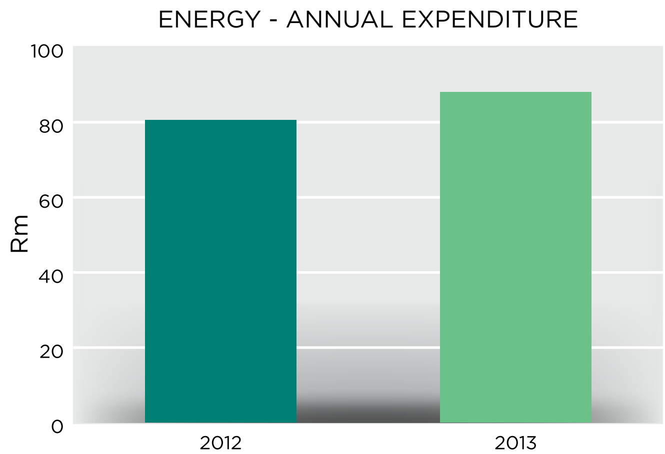
Denel will strive to lead by example and has the following objectives:

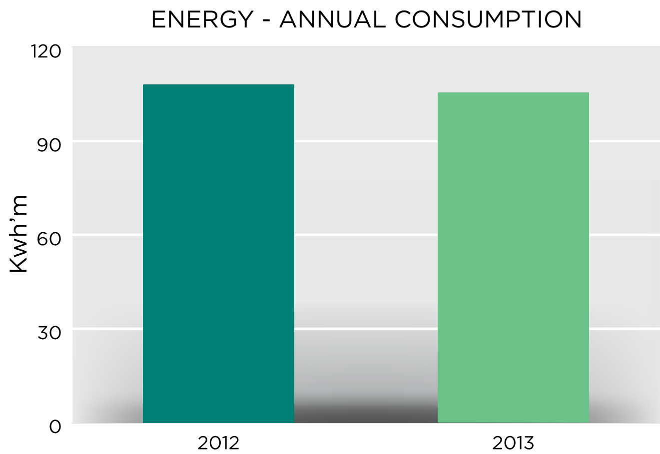
- Reduce electricity consumption or dependence on electricity by at least 10%;
- Reduce or recover electricity cost where possible;
- Reduce Denel's carbon footprint and contribute to environmental sustainability;
- Continue the energy awareness campaign within Denel; and
- Influence external awareness where possible.

Low-cost energy saving initiatives have been implemented and the on-going sensitisation of employees regarding energy savings is a priority. Capital-intensive energy saving initiatives, such as solar application systems are currently being investigated for further consideration, as well as the replacement of diesel generators with solar powered systems, where possible. The following initiatives have been implemented:

- Replacement of current lighting systems with energy-efficient types.
- Replacement of current fossil fuel boiler system with biomass fuelled system with an estimated 80% reduction in CO^2 emissions.
- Replacement of outdated and energy-intensive compressed air system with modern energy efficient technologies incorporating waste heat recovery.
- Replacement of traditional geyser systems with solar water heating and heat pump apparatuses.
- Cooling towers to be equipped with temperature sensors to control fan motors – fan motors will only turn on if the water in the reservoir tank exceeds set temperature parameters.
- Installation of solar photovoltaic electricity generation panels on roof surfaces.
- Heat generated by compressed air systems, air conditioning, and other processes are currently cooled using cooling towers and high-speed fans. The intention is to recover this heat through heat exchange apparatuses and utilise this heat for processes where heating is required.
- Various other initiatives, e.g. energy-efficient electrical equipment, power factor correction and demand control devices, as well as off-peak costing system to time-of use-system.

Energy consumption and related expenditure is monitored against the predetermined objectives. The total expenditure for the group is R88m, with a total consumption of 105 541 900 kWh. Progress made in curtailing energy consumption is depicted in the graphs below:





WATER

Denel continuously strives to reduce its water consumption from both a cost and environmental viewpoint. Business units have water management plans in place that are used to manage and promote the efficient use of this resource. Technical discussion meetings with suppliers are in process to improve water leak detection and thus reduce water wastage. On the various Denel campuses air-conditioning and garden maintenance are the main sources of water usage. Our challenge is to use water sparingly and wisely, while at the same time maintaining the lawns and gardens. The implementation of a grey water system is a focus area, as well as water awareness training.

Water consumption and related expenditure is monitored against the predetermined objectives. The water expenditure for the group is approximately R8m for the year, with a total consumption of 727ML, for the different campuses as split below:

SITES	WATER CONSUMPTION AND EXPENDITURE UNTIL END MARCH 2013			
	CONSUMED (ML)		AMOUNT (Rm)	
	2013	2012	2013	2012
Irene	40	41	1	1
Kempton	310	328	4	4
Lyttelton	2	118	0*	1
PMP	365	365	3	3
Houwteq	10	108	0*	1
Total	**727**	**960**	**8**	**10**

* *Amounts smaller than R1m due to rounding are not reflected against the entities but in aggregate on this page*

LAND STEWARDSHIP AND NATURE CONSERVATION

Denel's activities, in particular explosive and chemical-related activities, increase the risk of contamination and pollution of the environment. Where this occurs land is remediated for future use. There has been a drive to establish and implement a spillage procedure dedicated to preventing any major spillages that may lead to land contamination. Emergency response procedures for all SHE related emergencies have been established and communicated throughout the organisation. Extensive nature conservation plans have been put in place and game, veld and water conservation form three key focus areas. General plans and remediation work are continuously in progress, which include collaborations with government and stakeholders.

The following two areas are of particular environmental importance: our OTR business unit occupying 43 000 hectares in a conservation area and our Cape Town Philippi site which is under remediation.

OTR LAND CONSERVATION

A number of initiatives have been implemented, including a programme to identify indigenous and alien plants. All alien plants are removed as far as practically possible. Game management and fire management plans and policies are in place and regular training is conducted. Fire fighting teams conduct annual fire evacuation exercises. There are also veld management plans, which include hazard identification, risks, control and mitigation of veld fires on contracts. Rehabilitation, remediation, decontamination and demolition plans of the environment are in place on completion of a contract.

The primary objectives for game conservation is to manage and maximise species natural to this area according to ecological sustainable methods, through:

- Preserving of species diversity (natural to the region);
- Maintaining optimal sex ratios;
- Identification and management of rare and en-dangered species;
- Managing the game numbers to the carrying capacity of the area;
- The re-introduction of species historically present in this region; and
- Supplying surrounding areas with indigenous species.

In terms of veld conservation, the main objectives are:

- The control and eradication of alien invasive plant species;
- Maximise natural species and habitat diversity;
- Implementation of a structured fire management programme;
- Identification, mapping and management of rare and endangered species;
- Stabilisation and rehabilitation of disturbed areas; and
- Fire management.

Progress is continuously monitored and mitigation actions implemented where required. Excellent progress was made with its alien eradication programme, which is aligned with government departmental water conservation programmes.

PHILIPPI SITE REMEDIATION

Our Cape Town Philippi site, an unused old Denel property, is undergoing remediation. Two hundred and twenty buildings were identified and demolished. Building material was sorted, all steel material removed, roof trusses recycled and asbestos roof material relocated to a hazardous waste site. The remaining building material was crushed and used in the repairing of roads. Contaminated soil areas were identified and cleared. The area was cleaned, soil sieved, soil samples taken and tested to ensure it conforms to the remediation standards defined in the site characterisation standards.

The site was checked for unexploded components, and mechanical excavation was used to clean the area. During the remediation process special care was taken to ensure the environment was preserved. Certain tasks were rescheduled with the discovery of three barn owls hatching, to leave the nest undisturbed. The remediation is aimed at ensuring that the environment is returned to its original state.

WASTE PRACTICES AND RECYCLING

Business units' standard operating procedures include the handling of hazardous substances, e.g. oils, lubricants, paints, chemicals, petrol and diesel, and contained in environmentally safe storage and handling facilities. Storage practices are monitored and reviewed on an on-going basis. Denel has valid permits from the local authorities for the storage and handling of these hazardous substances. Initiatives for hazardous and general waste management include:

- On-going monitoring of processes, including internal and external waste audits.
- Documenting aspects of waste management, including requirements in respect of the collection, sorting, and sale, or safe disposal of waste generated on the sites. Certificates of "safe disposal" are retained on record with regards to hazardous waste disposal.
- Monitoring and analysis of effluent waste discharged into municipal sewers before permits are granted and authorisation issued for its release into the storm water and sewer systems.
- Established waste management policies to educate and support contractors and suppliers on waste management.

As part of an on-going environmental awareness campaign, a project launched in 2009 encouraging employees to bring recyclable waste from home has resulted in approximately 170 tons of waste to date which has been diverted from being dumped at landfill sites by recycling it. In some areas waste separation was extended with containers placed for the collection of electronic equipment, paper, plastic, batteries, electronic media, etc. All the aluminium waste generated from the manufacturing process is recycled.

The use and safe disposal of chemical substances, domestic and hazardous waste, as well as recyclable waste are managed in a responsible manner. Denel uses reputable waste removal suppliers. Details of hazardous and general waste disposed and recycled are indicated in the table below:

TYPE OF WASTE	DISPOSAL/RECYCLING METHOD AND COMMENTS
Hazardous waste disposed (tons)	Disposed of 38 tons at special landfills, where waste is treated in an environmentally friendly manner. Safe disposal certificates are received.
Hazardous waste disposed (kL)	Disposed of 712 kilolitres at special landfills where the waste is treated in an environmental friendly manner. Relates to soluble cutting oil and water only. Safe disposal certificates are received from waste contractors.
Hazardous waste recycled (tons)	Recycled 61 tons as part of environmental management.
Non-hazardous disposed (tons)/(m^3)	Disposed of 43 tons and 3 772m^3 at normal landfills by waste removal companies or own transport.
Non-hazardous waste recycled (tons)	Recycled 476 tons of paper, plastics, tins and metal shavings which are sold to recycling companies or dealers.

GREENHOUSE GAS EMISSIONS, BY WEIGHT

Denel strives to reduce greenhouse gas emissions. Environmental impact assessments have been carried out on all significant products and services and in some cases plans put in place to measure greenhouse emissions. We will keep putting processes in place and improving in this area.

GREENHOUSE GAS EMISSIONS	2013	2012	DETAILS AND COMMENTS
Emissions from the spray booth (Dynamics)	<10mg/m^3	<10mg/m^3	Reduction in emissions is due to the installation of additional filters.
Gas Nitrogen (PMP)	439 710	460 270	This action is still in its infancy stage and we will report as we progress.
Gas LPG 100% (PMP)	314 047	294 827	This action is still in its infancy stage and we will report as we progress.

STAKEHOLDER ENGAGEMENTS

Sound relations with Denel's stakeholders are a key priority of the group. Denel continuously engages with its customers, suppliers and business partners to strengthen the group's reputation as a credible, respectable business, reliable and trustworthy partner.

Denel's key interactions are with the Government, the defence community, customers, employees and the media. These engagements cover critical issues, including the financial performance and financial position of the group, exploration of new business opportunities, investment in R&D, technology and manufacturing capabilities and the prospects for the development of new products and services.

GOVERNMENT

During the past year Denel has hosted the Minister of Public Enterprises, the Deputy Minister, the Director General and senior management on a number of occasions, including at the AGM and during the release of the annual financial results, at special functions and at media events where announcements were made about key business developments. Denel places a high value on its interaction with Parliament and makes regular presentations to the Portfolio Committee on Public Enterprises, the Portfolio Committee on Defence and Military Veterans, and the Select Committee on Labour and Public Enterprises. The company also hosted parliamentary delegations at Denel facilities and responded to questions from members of Parliament. Denel's relationship with Government has led to increased recognition that Denel plays an important role in the high-tech manufacturing industry in meeting SA's developmental objectives.

LOCAL DEFENCE COMMUNITY

One of Denel's main purposes is to supply the SA defence and security environment with strategic capabilities, technologies, products, services and support. Denel places a high value on its relationship with the command structures of the SANDF and its service branches, as well as the DoD&MV and Armscor. Denel interacted with the Defence Review Committee during its deliberations and following the release of the first draft of the Defence Review 2012. The report contains a number of far-reaching recommendations, which will have an impact on the SA defence industry in general, and Denel in particular is looking forward to continued contributions to this process.

INTERNATIONAL DEFENCE COMMUNITY

During the year, Denel hosted a number of visiting delegations representing their governments, as well as existing and prospective customers. Denel was an anchor exhibitor at the AAD 2012 held at the Air Force Base Waterkloof. The company used this event, the largest defence exhibition on the African continent, to host visiting international delegations and to sign memorandums of understanding with key customers. Denel also participated in a number of international defence and security related exhibitions, among them, the Farnborough Air Show in the United Kingdom, the IDEX exhibition in Abu Dhabi, and the Defence Services Asia Exhibition in Kuala Lumpur, Malaysia.

MEDIA

Media engagements were used to update stake-holders, build the Denel brand and reiterate the contribution that Denel makes in achieving national priorities. On-going engagement with the media has been an important aspect of building and managing the company's reputation and the repositioning of Denel. Media interest in Denel remains high and the company's positive profile in both the electronic and print media continues to grow. During the year, the media reported extensively on Denel's contribution in the fields of advanced manufacturing, sustainable development and management of resources, contribution towards maths and science education, the company's efforts to attract, train and retain highly-skilled human resources and Denel's contribution to the national initiatives to combat poaching and smuggling of valued natural resources. Detail of media coverage is provided later in this section.

EMPLOYEES

Internal communication is a high priority for Denel, and the group keeps employees informed through regular publications, such as Denel Insights magazine, the monthly Denel News and weekly Denel Update containing information about contemporary news of interest. Denel also communicates with employees through road shows, as well as Infograms and "From the Desk of the GCEO" messages on issues of immediate importance.

The main stakeholder interactions during the year under review are depicted below:

STAKEHOLDER GROUP	MATERIAL ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Denel's Shareholder, Parliament and Government Departments • DPE • Portfolio Committees • DoD&MV • dti • DST • NT • DIRCO • NCACC	• Understanding of Denel's values, business and objectives; • Support for Denel's business activities; • Government support for export opportunities and industry participation; • Financial performance; • Key performance areas; • Transformation and advances in employment equity, B-BBEE; diversity and enterprise development; • Defining the role Denel can play in Government's developmental agenda and strategic objectives; • Denel "to be state" and alignment.	• Regular meetings between Denel and DPE officials; • Regular meetings with senior management of stakeholder departments and agencies; • Hosting of Ministers and senior executives at Denel events; • Shareholder's compact engagements and bilateral meetings with DPE; • Board engagement with the Shareholder; • Interaction with Portfolio Committees and site visits; • Participation in and contribution to key policy frameworks; and • AGM.	• Greater understanding of Denel's values and business objectives; • Support for marketing activities; • Positioning Denel as a global leader in the design, development and manufacturing of top quality products and services; • Financial support from NT; • Clarity on contribution Denel can make re national priorities; • Increased focus on value of stakeholder relations; • Increased capacity for Denel to contribute to national developmental objectives; and • Understanding of Denel's value-add to SA.
Customers, including: • SANDF • DoD&MV • Armscor • SAPS • International customers • Local customers • AMD • Diplomatic community • Supply chain	• Core strategic and sovereign capabilities; • DoD&MV budget priorities and constraints; • Performance and programme delivery; • Support for the placement of key orders. • Promotion of product ranges and new capabilities; • R&D; and • Showcasing Denel's products, services and technology to wider audiences.	• Contributions to broader SA defence industry; • Stakeholder visits to Denel campuses; • Regular interaction with key decision-makers at events and meetings; • Participation at international exhibitions and shows; • Hosting of foreign delegations and defence attaches; • Extensive branding at AAD 2012 and hosting of prominent events and media opportunities.	• Denel maintained all strategic capabilities for the SANDF; • Acquisition of LMT to strengthen landward defence capabilities; • Achieved >94% of contracted milestones for the year under review; • Airbus contracts renegotiated; • R528m spend on R&D; • Exports grew by 34% for the year; • The successful delivery of Cheetah aircraft in Ecuador; and • Strategic partnerships concluded with several international industry players.

STAKEHOLDER GROUP	MATERIAL ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Internal audiences: • Employees • Organised labour	• Affirmation of Denel's strategic objectives; • Business focus and strategy updates; • Sharing of general information about key business developments; and • Maintenance of sound labour relations.	• Meetings of Strategic Leadership Forum; • From the GCEO Desk communication and Infograms; • Regular publications – Denel Insights; Denel News; Denel Update; • Communication on message boards, e-mail and intranet; • Monthly meetings of Denel communications forum to coordinate messages; • Road shows and site visits by GCEO and senior executives among entities; • Staff functions and celebrations of national days; • Regular meetings with organised labour and professional organisations; and • Climate surveys.	• Support for Denel's strategic objectives; • Greater understanding of strategic decisions taken by management; • Informed and empowered employees; • Pride in the company and its achievements; • Higher levels of coordination in communication activities among entities; • Positive employer/ employee relationships; and • Increased productivity.
Financial institutions	• Understanding Denel's business model; and • Increasing bank facilities.	• Road shows; • Regular meetings with senior bank officials; and • Site visits.	• Improved understanding of Denel's business and objectives among financial institutions; and • Increased bank facilities.
Media	• Foster greater understanding of Denel's business and objectives; • Promoting the free-flow of information and transparency. • Positioning Denel as a strategic national asset; and • Highlighting Denel's contribution to broader SA society.	• Regular hosted events, media conferences and media briefings; • Media statements and responses to media queries; • Participation of Denel spokespeople on radio and television; • One-on-one interviews by GCEO with selected publications; and • Contribution to national discourse through thought leadership.	• Improved understanding of Denel's business and objectives among media; • Greater exposure of Denel to national and international audiences; • Positive coverage of Denel's activities and achievements; • Strategic support to Denel's marketing activities; and • Strengthened reputation of Denel as credible strategic partner for innovative defence and security related technology and responsible corporate citizen.
Ceasefire campaign	• Highlighting Denel's role in defence manufacturing	• Held a briefing meeting with their representatives.	• Clarity on contribution; and • Focus on value of various stakeholder relations.

Denel has received significant positive coverage in local, regional and international media, reflecting the group's activities and achievements. Among the highlights are:

HEADLINE	EXTRACT OF MEDIA RELEASE
Denel reduces power to produce its powerful products April 2012	Denel is introducing measures to cut down on energy consumption in the manufacturing of its products. An audit of power use is being conducted across the company and its subsidiaries. Denel also signed the "49M Power Pledge" designed to reduce the country's annual energy consumption by 10%.
The G6 – still outgunning the competition after 25 years April 2012	Twenty-five years after it astonished the global defence community, SA's G6 self-propelled Gun-Howitzer still sets the standards against which all long-distance artillery are being measured.
PMP ready to start production of newly-developed range of ammunition April 2012	SA ammunition manufacturer, PMP, has successfully completed the development of 30mm ammunition to be used by the locally-designed Badger combat vehicle. The company is ready to go into the production phase of this ammunition range and is working hard to secure additional orders.
Denel enters third decade with a focus on growth and sustainability April 2012	Denel intends to significantly increase its revenue, grow exports and substantially expand its investment in research and development within the next three years, says the Group Chief Executive, Riaz Saloojee. The state-owned defence and technology group celebrated its 20th year as an independent manufacturer in April 2012.
Denel Cheetahs flying high in Ecuador June 2012	All 12 the SA Cheetah supersonic fighters sold to Ecuador have successfully completed their test flights and are now ready for deployment by the country's air force. DAv will continue to provide a comprehensive maintenance and support service to the Ecuadorian Air Force for the next five years with an option for renewal.
Education is key in campaign to rid Africa of landmines June 2012	Children living in landmine-afflicted areas in Africa are receiving special education in how to identify the deadly devices and to call in the experts to lift and destroy them. Mechem, a global leader in humanitarian demining, says education programmes for children and communities in villages form a large part of its activities in the 11 African countries Mechem is currently operating.
Denel – a strategic national asset on a sustainable path July 2012	Denel SOC, SA's premier manufacturer of strategic defence and aerospace solutions has posted a modest profit for the second successive year, confirming its key position in both the defence environment and the SA economy. The SOC continues to meet its primary mandate as a custodian of key strategic defence capabilities and contributing to national developmental priorities, such as skills development, enterprise growth and maintaining advanced manufacturing capabilities.
Denel intends to grow its share of African defence market August 2012	Denel is embarking on a concerted marketing drive to increase the revenue of its products and services to other countries on the African continent. The state-owned defence company will soon establish permanent marketing offices in different regions in Africa and is evaluating its range of products and services to increase its offering to the continent. Denel has established presence in four African countries and exports to African countries increased by 32% from the prior year.
Denel joins forces with UAE company to manufacture precision-guided weapon systems September 2012	Denel has established a joint venture with Abu Dhabi-based, Tawazun Holdings, for the development, manufacturing, assembly and integration of precision-guided weapon systems. It will provide precision-guided weapon system manufacturing and integration, as well as product system management services to the air force of the UAE and other international customers.
New agreement strengthens DAe's role in A400M manufacturing September 2012	A new agreement between Airbus Military and DAe will contribute significantly to the financial turnaround of the company and confirm its position as a top-tier supplier of the A400M, the world's most advanced military airlifter. Denel Aerostructures is projecting break-even and returning to profits over a period of three years.

HEADLINE	EXTRACT OF MEDIA RELEASE
Denel deserves recognition as "best-governed" state-owned company October 2012	A study conducted by the Centre for Corporate Governance at the University of Stellenbosch has named Denel as the best-performing SOC in terms of corporate governance. Denel's commitment to good corporate governance, strong financial management and excellence in the development and manufacturing of its strategic products are increasingly being recognised by independent analysts.
Denel and SANParks sign landmark agreement to combat rhino poaching November 2012	SANParks and Denel have joined forces to fight the scourge of rhino poaching in SA. This is a momentous occasion for both state entities to work together in the fight against rhino poaching and protecting SA's heritage. Denel UAV technology and sniffer dogs are utilised in the park to assist against rhino poaching
Denel specialists on way to French Guiana for European space launch February 2013	Telemetry specialists from OTR and a high-technology mobile telemetry station will participate in the launch of the Vega space mission in French Guiana in April 2013.
Final Rooivalk handover cements relationship between Denel and SAAF March 2013	The final operation-ready Rooivalk helicopter has been handed over to the SAAF by DAv. The acceptance of the locally developed combat support helicopter marks the culmination of a 26-year partnership between the SAAF and Denel. The Rooivalk is flying daily and both Denel and the SAAF are satisfied with its performance.
New helicopter maintenance centre strengthens Denel's footprint in Africa March 2013	Africa's first centre of excellence for the repair and servicing of Russian Helicopters products was opened in Kempton Park following an historic agreement between Denel, and the Moscow-based manufacturer of rotary wing aircraft. The state-of-the-art maintenance facility will cater for the rapidly growing number of Russian Helicopters products flying on the continent of Africa, requiring high-level MRO work.

SUPPLIER MANAGEMENT

Denel through its supply chain activities is committed to: ethical business dealings, SA's economic growth, increased spend on black suppliers as part of black economic empowerment, reduction in unemployment and poverty, focused development of eligible black suppliers, with a specific focus on emerging black SMMEs and increased support for locally manufactured products.

The Denel policy framework aims to meet the PPPFA and B-BBEE codes of good practice and imperatives defined by the NT and the dti within the latitude granted to SOCs by the Minister of Public Enterprises. To ensure sound governance and accountability, Denel has reviewed supply chain processes, the delegation of authority and the composition of supply chain committees. The group has set targets to improve preferential procurement and measure the progress against its transformation programme. Further details are provided in the *transformation section* on page 87. Transformation of the supplier base is a key imperative for a number of Denel's stakeholders, and management under the leadership of the board has pursued a number of supply chain initiatives during the year under review.

PROCUREMENT PROCESSES

Governance in the supply chain areas is mature. The procurement committees are cross-functional and well constituted to deal with technical, quality, commercial, risk and governance issues. In reviewing the policies, processes and structures within the supply chain function, the relevant legislation, regulatory requirements and standards were taken into account. Commonly used products and services across the group were identified and group purchasing power used to enhance competitive pricing. Some notable examples include freight and logistics companies, cellphone service providers, IT services providers, precision engineering and machining companies, etc.

TENDER ADJUDICATION

Denel has implemented revised tender adjudication criteria to improve access by black-owned and transformed companies to opportunities within the Denel group. The Minister of Public Enterprises has given SOCs a concession to deviate from certain aspects of the PPPFA in order to improve access to opportunities by black-owned and transformed companies. A notable improvement in procurement from black and transformed suppliers is evident.

TARGETED TOP SUPPLIERS TO IMPROVE THEIR TRANSFORMATION STATUS

The procurement from the top suppliers ranges between 80% and 85% of local spend in the group. A campaign that targets these top suppliers with the aim to improve their transformation and B-BBEE rating has been initiated. Preliminary results show a positive trend that will continue.

IDENTIFICATION AND DEVELOPMENT OF ELIGIBLE BLACK SUPPLIERS

The identification and development of enterprise development beneficiaries that have the potential to supply into the core businesses of Denel continue to be a priority. The approach seeks to create solid and sustainable black-owned suppliers as strategic partners. The effectiveness of this process should be enhanced by increased collaboration with other state-owned and private companies.

SUPPLY CHAIN COMPETENCY AND TRANSFORMATION

The skills sets, governance processes and transformation status of supply chain functions at Denel business units were reviewed. Targeted interventions have been put in place to ensure requisite supply chain competencies are developed, coupled with succession plans to maintain business continuity. Progress on the implementation of the plans is reported on and tracked at the group supply chain quarterly meetings. The current EE status has been determined and contracted for 2013/14.

DENEL PROCUREMENT EXPENDITURE

	B-BBEE RECOGNISED PROCUREMENT SPEND					
	LEVEL 1 TO 3	LEVEL 4 TO 5	LEVEL 6 TO 8	LEVEL 9/ UNRECOGNISED	FOREIGN SPEND	TOTAL SPEND
TYPE OF SPEND	Rm	Rm	Rm	Rm	Rm	Rm
Local spend	572	425	221	365	-	1 583
Foreign spend	-	-	-	-	405	405
Total	**572**	**425**	**221**	**365**	**405**	**1 988**

SUSTAINABLE DEVELOPMENT

CORPORATE SOCIAL INVESTMENT

Denel contributes towards the sustainability of the economic, environmental, and social conditions of the country. Denel aims to empower, improve and transform the lives of people, who are non-participants in the economy, to be included into the economic mainstream in a sustainable manner.

The group focuses on corporate social investment (CSI) activities that are aligned with its business strategies. The group's focus areas relate to:

- Supporting education programmes to create an awareness of mathematics, science and engineering amongst learners. Such investments ultimately benefit Denel and other companies in SA.
- Enterprise development through monetary and non-monetary contributions to identified exempted and qualifying small enterprise suppliers who demonstrate potential for growth and job creation, and who are aligned to Denel's required supplier base. Comprehensive details of the group's enterprise development practice and its performance, are provided in *economic contribution* and *supplier management* sections on pages 75, 98 and 99 respectively.
- Socio-economic development programmes through monetary and non-monetary contributions to develop women, youth, people with disabilities and people living in rural areas.

EDUCATION INITIATIVES AND PROGRAMMES

The country is facing a number of challenges with regards to people sustainability relating to an ageing workforce, increased international competition for scarce skills and not enough learners with decent maths and science grades for the engineering and science requirement.

It is against this background that Denel has adopted a holistic HR management approach to develop its people sustainability programme. The group begins at school level by providing extra maths and science Saturday classes to increase the pool of youngsters achieving better marks in these subjects. The drive is to encourage them to be able to take up engineering as a career. Bursaries are provided to those with the greatest potential by providing them with an intensive internship after successfully completing their engineering degrees. During and after the internship, they are mentored by world-class engineers within the organisation.

Denel offers apprenticeship bursaries to more than 30 learners from previously disadvantaged backgrounds every year, giving them an opportunity for a decent career and work opportunities. The source for most of our bursary holders is through Denel's youth foundation training programme, schools outreach programmes and shows. Denel also offers vacation work to university students who are studying in the engineering field. Denel's flagship programme is its artisan training academy, within DTA. Refer to artisan training in the *people management* section on pages 81 to 85 for detail on apprenticeship training courses offered. Denel has sponsored 137 apprentices for the reporting period who are at various stages of the programme.

- **Schools outreach programme:** Denel is involved in the upgrading of mathematics and science teaching to improve the standards of teaching at schools especially in underprivileged communities. Denel engineers are involved in tutoring learners on Saturdays without reward. The programme is currently running in the Gauteng and North-West provinces with over 1 200 learners from grade 8 to 12 taking part.
- **Supporting education initiatives and programmes:** Denel supports two primary schools in the Overberg region, with partial payment of an additional teacher's salary, benefiting approximately 400 primary learners. Denel further sponsors learners who wish to improve their matric results in maths and science at Jeppe College.
- **Sponsorship towards the Technology Olympiad:** Denel is a sponsor to the South African Institute of Mechanical Engineers Technology Olympiad and

provides technical assistance to entrants on their projects. The Technology Olympiad is a national programme, which aims to bring technology awareness to young people. The programme requires learners to use engineering principles to build a working model that solves engineering challenges. This year the challenge was to build an air-powered car to travel over a distance of 3m and return.

SOCIO-ECONOMIC DEVELOPMENT PROGRAMMES

The programmes run on a decentralised basis with business units being responsible for these projects. Some programmes supported include:

- **Buckets of Love Campaign:** During February, Denel Aviation employees collected food packs and school uniforms that were delivered and received with appreciation at Community Provision and Social Services (COMPASS). The organisation looks after approximately 151 mothers, babies and children, aged between newborn to 17 years who are from abused and abandoned, terminally ill, and impoverished and previously disadvantaged backgrounds in three different homes.
- **DESTO:** Denel Industrial Properties provides free rental space to the DESTO, a section 21 company that provides training for underprivileged communities and offers various youth development initiatives at a value of R101k per month.
- **Support of women in technical and engineering disciplines:** To increase awareness and encourage female participation in technical careers, Denel participates in the following programmes:
  - **SAWomEng** is a recognised non-profit organisation and since 2006 has been at the forefront of tackling issues regarding gender gaps in the engineering environment. The organisation is run by a group of 100 volunteers who are either engineering students or recent graduates that focus on engineering education; attraction and retention of females into the engineering sector; skills development (including leadership development); innovative problem solving and mentorship. Denel has been a sponsor company since 2010 and is involved in a number of targeted interventions with the organisation.
  - **GirlEng** which is a mechanism used to recognise and attract high potential maths and science students, nurtures and mentors them to enter the study of engineering, which is sponsored by Denel.
  - **SAWomEng Annual Conference** which is an annual technical challenge for the best and brightest female engineering students to find solutions to global challenges and develop and prepare for industry.
  - **Technogirl:** The Department of Basic Education, UNICEF and the Gauteng Department of Education are running the Techno Girl Programme which Denel supports. Denel has ten Grade 11 and 12 learners on a three-year job shadowing programme. The aim of the programme is to expose these girls to maths, science and technology careers. This is particularly necessary for the girl child who traditionally is not exposed to these scarce careers and females in influential positions. Girls are therefore placed in companies whose core business activities are focused on scarce career fields and/or occupations were women are under-represented, such as engineering, construction, forensic sciences, etc.
  - **Cell C "Take a girl child to work":** Denel participate in this annual event by hosting female learners for the day and showcases the various aviation careers available. The learners are also addressed by female employees who encourage them to pursue technical careers.
- **"Make 'em Fly" campaign:** Denel in partnership with Kid's Haven, a shelter for homeless children launched a campaign, which involves donations and promoting maths and science. Executive members act as mentors for the children by exposing them to opportunities in the aviation industry.
- **Supporting handicapped children:** Denel provides financial support for operational costs and the building of a library and sports facilities to the Zodwa School for handicapped children in Atteridgeville. Denel also provides financial support to Filadelfia School for disabled children.

OCCUPATIONAL HEALTH AND SAFETY

Denel views workplace health and safety not only as a legal obligation but a moral responsibility towards its employees. Denel has assigned business unit CEOs with the responsibility to ensure a safe work environment and in particular to implement effective systems based on OHSAS18001 to meet all legal requirements.

OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Denel aims to provide a safe work environment by preventing accidents and incidents and targets a Lost Time Injury Frequency Rate (LTIFR) of less than one at each business unit. Management conducts assessments to determine risk exposure that informs preventative measures. The performance of the individual business unit is provided below:

SAFETY SYSTEMS AND PERFORMANCE

BUSINESS UNIT	MANAGEMENT SYSTEM CERTIFICATION STATUS	LTIFR PERFORMANCE		
		ACTUAL 2013	TARGET 2013	ACTUAL 2012
DAe	OHSAS 18001 aligned not certified	0.34	<1	1.02
DAv	OHSAS 18001 certified	0.88	<1	0.78
Dynamics	OHSAS 18001 aligned not certified	0.00	<1	0.14
DLS	OHSAS 18001 certified	0.95	<1	0.00
PMP	OHSAS 18001 certified	0.22	<1	0,27
OTR	OHSAS 18001 aligned not certified	0.57	<1	0.00
Deniprop	OHSAS 18001 system aligned	2.06	<1	1.83

MEDICAL EXAMINATIONS

Pre-employment, periodic and exit medical examinations are conducted in Denel's occupational health centres operated by qualified occupational health and occupational medicine practitioners, involving especially those employees engaged in high-risk occupations. Procedures undertaken during the year under review are tabulated below:

	DAe	DAv	DD	DLS	PMP	OTR	DENIPROP
Pre-employment and exit medical examinations	147	173	148	92	336	-	13
Periodic medical examinations	166	181	69	270	342	-	18
Biological monitoring	-	6	31	13	76	7	3
Audiometric (hearing) tests	327	12	1	322	807	-	21
Laser eye testing	-	-	27	-	-	-	-

OCCUPATIONAL HYGIENE SURVEYS

An approved inspection authority conducts occupational hygiene surveys on various environmental stressors, including illumination, noise, ventilation, HCS, as well as ergonomics to ensure compliance with legislation. The results for previous surveys showed no major deviations. A number of surveys are scheduled for the following year.

OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS

In order to enhance safe work practices, routine health and safety induction and specific job-related safety training are provided to all employees. Details of training provided during the year under review are tabulated below:

TRAINING TYPE OFFERED	NUMBER OF EMPLOYEES TRAINED PER BUSINESS UNIT						
	DAe	DAv	DD	DLS	PMP	OTR	DENIPROP
Health and safety induction	26	111	36	49	53	6	51
Hazardous chemical substances	2	16	12	4	205	5	3
Material safety data sheets	-	16	-	3	205	-	51
Spill kit	-	-	-	-	-	-	4
Scaffolding	-	-	-	-	-	-	8
Health safety representatives	6	9	6	3	4	-	29
Hazard identification and risk assessments	-	9	-	29	5	-	-
Explosives areas	-	30	13	-	230	-	-
Legal training for supervisors	-	1	-	-	-	-	11
First aiders	21	8	15	8	89	-	6
Fire fighters	-	10	9	4	129	-	28
Emergency team members	-	-	-	-	129	5	5
Incident investigators	-	2	-	-	4	-	1
Crane and forklift operators	41	75	25	51	73	12	18
Lead training	-	-	-	-	-	-	-
Noise induced hearing loss	-	80	-	-	-	-	-
Vessels under pressure	-	-	-	-	-	-	-
Health and safety awareness	-	-	60	462	-	-	51

GRI CONTENT INDEX

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

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
SUSTAINABILITY PROFILE						
Strategy and analysis	1.1	Statement from the most senior decision-makers of the organisation	√	√	√	Chairman's statement Group chief executive officer's report
	1.2	Description of key impacts, risks and opportunities	√	√	√	Governance - Risk governance Sustainable development - Economic contribution Performance review
Organisational profile	2.1	Name of organisation	√	√	√	Group overview
	2.2	Primary brands, products, and/or services	√	√	√	Group overview Performance review
	2.3	Operational structure of the organisation	√	√	√	Group overview - Organisational structure
	2.4	Location of organisation's headquarters	√	√	√	Information service - Corporate contact details
	2.5	Number of countries where the organisation operates	Δ	Δ	Δ	Group overview Sustainable development - Economic contribution Performance review
	2.6	Nature of ownership and legal form	√	√	√	Group overview - Governance and ownership
	2.7	Markets served	Δ	Δ	Δ	Group overview Operational review Sustainable development - Stakeholder engagements - Economic contribution Performance review
	2.8	Scale of reporting organisation	√	√	√	Group overview - Organisational structure Performance review
	2.9	Significant changes during the reporting period, regarding size, structure and ownership	√	√	√	Group chief executive officer's report Operational review
	2.10	Awards received in the reporting period	√	√	√	Chairman's statement; Group chief executive officer's report Performance review - Key achievements

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
Report profile	3.1	Reporting period for information provided	√	√	√	About this report (inside cover) Directors' report Independent auditors' report
	3.2	Date of most recent previous report (if any)	√	√	√	About this report (inside cover) Directors' report Independent auditors' report
	3.3	Reporting cycle	√	√	√	About this report (inside cover) Directors' report Independent auditors' report
	3.4	Contact point for questions regarding the report or its contents	√	√	√	Information service - Corporate contact details
Report scope and boundary	3.5	Process for defining report content	√	√	√	Sustainable development
	3.6	Boundary of the report	√	√	√	Sustainable development
	3.7	Limitations on the scope or boundary of the report	√	√	√	Sustainable development
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	√	Sustainable development
	3.9	Data measurement techniques and the basis of calculations	√	√	√	Sustainable development
	3.10	Explanation of the effect of any restatements of information provided in earlier reports	n/a	n/a	n/a	Sustainable development
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods	n/a	n/a	n/a	Sustainable development
GRI content index	3.12	Table identifying the location of the standard disclosures in the report	√	√	√	GRI content index
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	Δ	Δ	Δ	Sustainable development

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
Governance, commitments and engagement	4.1	Governance structure of the organisation	√	√	√	Governance - Corporate governance
	4.2	Whether the chairman of the highest governance body is also an executive officer	√	√	√	Governance - Corporate governance
	4.3	The number of members of the highest governance body who are independent and/or non-executive members	√	√	√	Governance - Corporate governance
	4.4	Shareholder and employee recommendations or direction to the highest governance body	√	√	Δ	Governance - Corporate governance Sustainable development - Stakeholder engagements
	4.5	Linkage between compensation for members of the board, senior managers, executives and the organisation's triple-bottom-line performance	√	√	√	Governance - Remuneration
	4.6	Processes and highest governance body to ensure conflicts of interest are avoided	√	√	√	Governance - Corporate governance
	4.7	Process for determining the qualifications and expertise of the members of the board	√	√	√	Governance - Corporate governance
	4.8	Statements of mission or values, codes of conduct and principles	√	√	√	Group overview - Vision, strategic drivers and values
	4.9	Procedures of the board for overseeing the organisation's identification and management of economic, environmental, and social performance	√	√	√	Governance - Corporate governance
	4.10	Processes for evaluating the board's own performance	√	√	√	Governance - Corporate governance
Commitments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	√	√	√	Governance - Risk governance
	4.12	Externally developed economic, environmental and social charters, and principles to which the organisation subscribes or endorses	√	√	√	Sustainable development - Supplier management - Transformation - Stakeholder engagements - Environmental responsibility
	4.13	Memberships in associations and/or national/international advocacy organisations	√	√	√	Sustainable development - Environmental responsibility - Occupational health and safety - Risk governance

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
Stakeholder engagement	4.14	Lists of stakeholder groups engaged by the organisation	√	√	√	Sustainable development - Stakeholder engagements
	4.15	Basis for identification and selection of stakeholders with whom to engage	√	√	√	Sustainable development - Stakeholder engagements
	4.16	Approaches to stakeholder engagement	√	√	√	Sustainable development - Stakeholder engagements
	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	√	√	Sustainable development - Stakeholder engagements
ECONOMIC INDICATORS						
Economic performance	EC1	Direct economic value generated and distributed	√	√	√	Sustainable development - Economic contribution
	EC3	Coverage of the organisation's defined benefit plan obligations	√	√	√	Note 35 of the consolidated annual financial statements
	EC4	Significant financial assistance received from the SA Government	√	√	√	Group chief executive officer's report Sustainability development - Stakeholder engagements Directors' report
Market presence	EC6	Policy, practices and proportion of spending on locally-based suppliers	√	√	√	Sustainability development - Supplier management - Transformation
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	√	√	√	Sustainability development - People management
Indirect economic impact	EC8	Development and impact of infrastructure investments and services for public benefit	√	√	√	Sustainability development - Corporate social investment
	EC9	Significant indirect economic impacts	√	√	√	Sustainability development - Economic contribution - Corporate social investment
SOCIAL INDICATORS						
Employment	LA1	Total workforce by employment type, employment contract and region	Δ	Δ	Δ	Sustainability development - People management
	LA2	Total number and rate of employee turnover by age group, gender and region	Δ	Δ	Δ	Sustainability development - People management
	LA3	Benefits provided to full-time employees who are not provided to part-time or temporary employees	√	√	√	Sustainability development - People management
Labour/ management relations	LA4	Percentage of employees covered by collective bargaining agreements	√	√	√	Sustainability development - People management
	LA5	Minimum notice periods regarding operational changes	√	√	√	Sustainability development - People management

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	√	√	√	Sustainability development - Occupational health and safety
	LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	√	√	√	Sustainability development - People management - Occupational health and safety
Training and education	LA10	Total training spend by employee category	√	√	Δ	Sustainability development - People management
	LA11	Programmes for skills management and lifelong learning	√	√	Δ	Sustainability development - People management
	LA12	Percentage of employees receiving regular performance and career development reviews	√	√	√	Sustainability development - People management
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	Δ	Δ	Δ	Sustainability development - People management
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
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
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
Community	SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities	√	√	√	Sustainability development - Stakeholder engagements - Corporate social investment
Corruption	SO2	Percentage and total number of business units analysed for risks related to corruption	Δ	Δ	Δ	Governance - Risk governance
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	√	√	√	Governance - Risk governance
	SO4	Actions taken in response to incidents of corruption	√	√	Δ	Governance - Risk governance
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	Δ	Δ	Δ	Governance - Risk governance

ASPECT	NO.	GRI G3 INDICATOR	2013 RATING	2012 RATING	2011 RATING	INTEGRATED REPORT REFERENCE
Anti-competitive behaviour	SO7	Total number of legal actions for anti-competitive behaviour, anti-trust or monopoly practices	n/a	n/a	X	Governance - Risk governance Sustainability development - Environmental responsibility
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	√	√	Governance - Risk governance Sustainability development - Environmental responsibility
Customer health and safety	PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement	Δ	Δ	Δ	Sustainability development - Supplier management
	PR2	Number of incidents of non-compliance with regulations	Δ	Δ	Δ	Sustainability development - Supplier management
Products and services	PR3	Type of product and service information required by procedures and percentage of significant products and services subject to information requirements	Δ	Δ	Δ	Sustainability development - Supplier management Governance - Risk governance
	PR5	Practices related to customer satisfaction	Δ	Δ	Δ	Sustainability development - Supplier management
ENVIRONMENTAL INDICATORS						
Materials	EN2	Percentage of materials used that are recycled input materials	√	√	Δ	Sustainability development - Environmental responsibility
Energy	EN3	Direct energy consumption	√	√	√	Sustainability development - Environmental responsibility
	EN6	Initiatives to provide energy-efficient based products and services and reductions in energy requirements	√	√	Δ	Sustainability development - Environmental responsibility
Water	EN8	Total water consumption	√	√	√	Sustainability development - Environmental responsibility
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	Δ	Δ	Δ	Sustainability development - Environmental responsibility
Emissions, effluents and waste	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas	Δ	Δ	Δ	Sustainability development - Environmental responsibility
	EN22	Total weight of waste by type and disposal method	√	√	√	Sustainability development - Environmental responsibility
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	√	√	√	Sustainability development - Environmental responsibility
Compliance	EN28	Monetary value of significant fines and the number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	√	√	Sustainability development - Environmental responsibility
Overall	EN30	Total environmental protection expenditures, by type	√	√	√	Sustainability development - Environmental responsibility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8 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

REPORT OF THE AUDIT AND RISK COMMITTEE

The audit and risk committee is independent and consists of four independent, non-executive directors. It meets at least three times per year as per its terms of reference. Attendance of meetings, dates of appointments, and qualifications of the members are included on pages 62 and 16 to 19.

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

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

- The effectiveness of internal controls.
- The risk areas of the group's operations covered in the scope of internal and external audits.
- The adequacy, reliability and accuracy of financial information provided by management.
- Accounting and audit concerns identified through internal and external audits.
- The group's compliance with legal and regulatory provisions.
- The effectiveness of the internal audit function.
- The activities of the internal audit function, including its annual audit plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- The independence and objectivity of the external auditors.
- The assurance provided as contained in the combined assurance model.

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

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 consolidated annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

EXTERNAL AUDITORS APPOINTMENTS AND INDEPENDENCE

The company appointed SizweNtsalubaGobodo supported by Kwinana Equifin, as independent external auditors during the year under review. The committee has satisfied itself that the external auditors were independent of the group, as set out in the Companies Act, which includes consideration of conflicts of the interest as prescribed by the Public Audit Act of SA, 2004 (Act no. 25 of 2004) (PAA).

Requisite assurance was sought and provided by the external auditors that internal governance processes within their audit firms support and demonstrate their independence. The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2012/13 year.

EXPERTISE AND EXPERIENCE OF THE GROUP FINANCIAL DIRECTOR AND FINANCE FUNCTION

The committee has satisfied itself that the GFD has appropriate expertise and experience. The committee has considered, and has satisfied itself of the appropriateness of the expertise and the adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function.

The committee has evaluated the integrated report, including the annual financial statements of the Denel group and Denel SOC Ltd for the year ended 31 March 2013 and based on the information provided to it, considers that they comply in all material respects with the requirements of the Companies Act, the PFMA and IFRS.

Furthermore, the group audit and risk committee concurs that the adoption of the going concern assumption in the preparation of the consolidated annual financial statements is appropriate. At its meeting on 14 June 2013, the committee recommended the adoption of the integrated report by the board of directors.

Martie Janse van Rensburg
Chairman of the audit and risk committee

INDEPENDENT AUDITORS' REPORT TO PARLIAMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DENEL SOC LTD

for the year ended 31 March 2013

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the consolidated and separate financial statements of the Denel SOC Limited and its subsidiaries as set out on pages 122 to 198 which comprise the consolidated and separate income statements, statements of financial position as at 31 March 2013, the consolidated and separate statements of comprehensive income, statements of changes in net equity and the cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate annual financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act of SA, and for such internal control as the accounting authority determines 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 consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the PAA, the General Notice issued in terms thereof and 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 consolidated annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements.

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

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Denel SOC Limited and its subsidiaries as at 31 March 2013, and their financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the PFMA and the Companies Act.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated annual financial statements for the year ended 31 March 2013, we have read the directors' report, the audit and risk committee's report and a certificate of the company secretary for the purpose of identifying whether there are material inconsistencies between these reports

SizweNtsalubaGobodo
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and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the General Notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the information in the Shareholder's compact key performance indicators as set out on page 40 of the integrated report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the key performance indicators in the Shareholder's compact concerning the usefulness and reliability of the information.

COMPLIANCE WITH LAWS AND REGULATIONS

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations that we considered sufficiently significant for inclusion in this report.

INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, performance report and compliance with laws and regulations.

We did not identify any deficiencies in internal control which we considered sufficiently significant for inclusion in this report.

Sizwe Ntsaluba Gobodo Inc.

SizweNtsalubaGobodo Inc.
Director – Loganathan Govender
Registered Auditor
Chartered Accountant (SA)
20 Morris Street East
Woodmead
Johannesburg

24 June 2013

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DIRECTORS' REPORT

STATEMENT OF RESPONSIBILITY

The board of directors is pleased to present its report and the audited *consolidated annual financial statements* for the year ended 31 March 2013.

The directors are responsible for the integrity and fair presentation of the annual financial statements of Denel SOC Ltd and its subsidiaries. The consolidated annual financial statements presented on pages 122 to 198 have been prepared in accordance with IFRS, the Companies Act and PFMA. These *consolidated annual financial statements* have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The directors have supervised the preparation of information included in the integrated report and are responsible for both its accuracy and consistency.

The directors are responsible for going concern and are satisfied that at the time of approving the *consolidated annual financial statements* it is appropriate to use the going concern basis in preparing these *consolidated annual financial statements*. In arriving at this conclusion, the directors considered the cash position at 31 March 2013, the cash requirements for at least 12 months from that date and the borrowing facilities available. The going concern is discussed in more detail on page 119 of this report.

The external auditors are responsible for independently auditing and reporting on the *consolidated annual financial statements*. The *independent auditors' report* appears on page 114 and 115.

During the year under review, the directors retained full and effective control over the group and monitored management in implementing the approved plans, risk management and strategies. The board is satisfied that the risk management processes are effective.

The directors are of the opinion that the *consolidated annual financial statements* fairly present the financial position of Denel SOC Ltd and its subsidiaries and the results of their operations and cash flows for the year ended 31 March 2013.

The *consolidated annual financial statements* of Denel SOC Ltd for the year ended 31 March 2013, as set out on pages 122 to 198, have been prepared under the supervision of Mr Fikile Mhlontlo CA(SA) and were approved by the board of directors on 24 June 2013 in terms of the Companies Act and the PFMA, and are signed on their behalf by:

Zoli NR Kunene
Chairman of the board

Riaz Saloojee
Group chief executive officer

CERTIFICATE BY THE GROUP COMPANY SECRETARY

The company secretary certifies that the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Elizabeth Africa
Group company secretary

The financial results in this report are based on the results of the Denel group, and in context the term 'group' refers to the company, its subsidiaries and associated companies. The nature of the group's business is described in the *role of Denel* section on page 5, as well as in the *operational overview* section on page 44 of this report.

FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2013 Rm	2012 Rm
Revenue	3 918	3 568
Other income	231	196
Operating expenditure	(940)	(958)
Profit before interest and tax (EBIT)	189	133
Net finance costs	(107)	(84)
Net profit	71	41

Denel has posted a profit of R71m (2011/12: R41m), a noticeable improvement from the prior year. The year under review's results can be attributed to an improvement in revenue compared to the prior year, cost savings initiatives, as well as increase in other income as a result of successful risk mitigations. For further information refer to the *performance review* section on pages 36 and 37.

EXTERNAL INTEREST EXPENSE ON BORROWINGS

The group is funded mainly by interest-bearing borrowings, with an external interest cost of circa R100m per annum, which are backed by government guarantees. Also, refer to the *funding* section of this report on page 119.

SIGNIFICANT CONTRACTS

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

HOEFYSTER

Denel is executing a contract for the development and production of the new-generation infantry combat vehicle product system programme, namely Hoefyster. Denel successfully completed the required milestones of the development phase of the project, which initiated negotiation for the placement of the production order. The programme accounted for revenue of R122m during the year.

Denel is looking forward to being involved in the production phase of the programme, and the process to approve the placement of the production order by the customer is progressing well. The project is based on the localisation of a European designed vehicle platform, and will result in a local content of at least 70% and contribute to job creation in SA. It will further create a platform for Denel to train and retain skills, such as artisans, technicians and engineers to meet government objectives. Denel's position to market infantry turrets and artillery systems will be strengthened, which may further contribute to the industry, SMME development and B-BBEE objectives. The production phase of the contract will be executed over a period of ten years.

ARMOURED FIGHTING VEHICLE

Denel was selected by a prime contractor in Southeast Asia to develop, manufacture, supply, deliver and commission a turret for 8x8 armoured fighting vehicles. The programme is for the supply of two-man turrets, missile turrets equipped with the G-130 30mm gun and anti-tank missile system. The contract requires participation in the buying country's economy, and as a result the production and assembly is taking place in the buying country.

The contract is executed over a seven-year period during which time the required industrial participation activities must be concluded. During the year under review, significant progress was made towards finalisation of contractual terms. The programme accounted for revenue of R256m during the year.

A400M

Denel is contracted as a programme partner for the design, development, manufacture, supply and supporting activities of the Airbus A400M WFF and TS structural components. Denel has delivered its 18th WFF and 19th TS ship set to Airbus and is scaling up capabilities to Airbus A400M technology requirements and deliveries will increase in 2013/14. We understand that the first Airbus production aircraft MSN007 will be delivered to an Airbus customer during 2013/14.

Contract amendments to ensure commercial viability, related to the WFF and TS were successfully negotiated with Airbus during the year. As part of the renegotiated contract, Airbus agreed to continue with the transfer of the RSS work package to DAe. The production of the first A400M RSS parts is scheduled for May 2013 with full ship set production starting in January 2014. The programme accounted for revenue of R131m during the year.

AVIONICS AND NAVIGATION UPGRADE

Denel was contracted in 2007 to upgrade the avionics and navigation system of the Oryx helicopter. It is a fixed price, fixed-term contract for an amount of R460m that was originally due to be completed by June 2012 and includes the development, qualification and production phases of 38 aircraft. Due to the extent of engineering and flight testing effort required, the programme was delayed. The new completion date is scheduled for December 2015.

The qualification flight test phase of the programme and acceptance by the customer is nearing completion. Denel is in the process of initiating negotiations regarding a contract variation order to accommodate the slip in schedule and additional cost to complete the programme. An interim supplemental type certificate has recently been issued for the avionics upgrade, thereby allowing the SAAF to perform operational test and evaluation activities for the upgraded baseline. Final SAAF acceptance and release to service of modified aircraft will follow the successful completion of this phase of the programme. The programme accounted for revenue of R42m during the year.

AIR-TO-AIR MISSILE

The development of A-Darter, a highly sophisticated missile, in a collaboration programme between the governments of SA and Brazil is progressing well. Some delay and cost overruns have been experienced due to the complexities associated with a missile of this nature. The depth of the strategic relationship was again illustrated in the form of additional funding made available to complete development by the end of 2014.

Discussions are on-going regarding follow-on collaborative projects and work share strategies. The programme accounted for revenue of R176m during the year.

SEEKER 400

Denel is investing in the development of a new and internationally competitive UAV, the Seeker 400. Significant progress has been made in the Seeker 400 development programme and all hardware manufacturing is completed with system integration underway.

Due to complexities with the key subsystems there was a significant variation in the programme schedule, including a delay of the maiden flight test now scheduled for mid-2013. The projects attached to this development accounted for revenue of R89m during the year with investment of R60m in the development of Seeker 400.

PRECISION-GUIDED MUNITIONS

Denel concluded a contract in 2011 to the value of R1.2bn for the sale of precision-guided munitions. The contract is well on track and first deliveries took place towards the end of the 2012/13 financial year. Weapon evaluations and aircraft integration flight tests are on-going and a number of significant milestones have been achieved. A centre of excellence for manufacturing of these weapons is being established in the buying country as a part of a joint venture established by Denel and that country's partner. Both parties are pleased with the progress. The programme accounted for revenue of R254m during the year.

DENEL MEDICAL BENEFIT TRUST

The group provides a post-retirement medical subsidy to current and former employees, who were appointed before 1 April 2000. The assets to fund this liability are housed in the DMBT. The assets and liabilities of the trust are held and accounted for separately in the name of the trust, and are not included in the *consolidated annual financial statements* of the group.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise. Although certain businesses have been unbundled from the group, the total liability remains with Denel. Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit. To date, 74% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy. Denel will ensure that through due process the open-ended liability is terminated in terms of the remaining beneficiaries.

The actuarial value of the fund and other disclosures are provided in note 35 of the *consolidated annual financial statements*.

FUNDING

Denel has interest-bearing borrowings with a coupon value of R1.85bn, raised through a domestic medium term note (DMTN) programme. These borrowings are backed by a government guarantee of R1.85bn that matures on 30 September 2017 and Denel will only apply to have these guarantees extended for a further period if required. The group's borrowings are at an average interest rate of 5.8% that includes an average overnight borrowing rate of 6.4%, and an average Commercial Paper Program (CPP) interest rate of 5.8%, which resulted in borrowing cost of R115m during the year. Denel engages with its Shareholder on an on-going basis regarding the requirement of a long-term sustainable funding model.

Denel's FitchRatings rating has changed from AA(zaf) long-term and F1+(zaf) short-term with a negative outlook to AA-(zaf) and F1+(zaf) outlook stable during the year. The rating agency is relying strongly on continued Shareholder support for the group.

The cash on hand together with the cash forecast for the next 12 months indicates that the group will be liquid for the foreseeable future. During the year under review, Denel managed cash and working capital tightly, ensuring minimal exposure to liquidity risk.

GOING CONCERN

Denel received recapitalisation of R700m during the 2012/13 financial year to support the aerostructures business. The group is solvent with shareholder's equity of R1 472m at 31 March 2013, and based on the recent corporate plan, the company will continue to be solvent for the foreseeable future. Denel is a high working capital investment company due to the long-term nature of the contracts requiring on-going funding. Cash and short-term deposit balances of R1.2bn are adequate to fund the group.

The balance sheet has strengthened tremendously, however, it remains fairly geared. Denel continues to focus on new revenue streams, improvements in efficiency, risk management, as well as cost optimisation across all business units to strengthen its financial position.

The directors evaluated the appropriateness of the going concern assumptions used in the preparation of the *consolidated annual financial statements* and in particular considered the matters summarised below:

- The solvency and liquidity position of the group as at 31 March 2013.
- The availability of sufficient funds, including borrowing facilities, to meet the group's requirements over the next 12 months, including that the DAe funding has been resolved by the Shareholder.
- The forecasted shareholder's equity for the foreseeable future is positive.
- The Shareholder continues to view Denel as a strategic asset and has in the past made a written undertaking that it will endeavour to assist the directors in maintaining its going concern status and has extended the R1.85bn guarantee from one to five years.
- The business results projected over the next five years and risks identified in the corporate plan.

Based on the above factors, the directors are satisfied that Denel has adequate reserves and cash resources to continue operating as a going concern.

The *consolidated annual financial statements* were, therefore, prepared on this basis.

INTERNAL CONTROLS

The group has implemented a system of internal control. The board is satisfied that the system of internal control is effective.

COMPLIANCE WITH LAWS AND REGULATIONS

The group has implemented a compliance process to meet applicable legal and regulatory requirements. The process entails implementing systems to ensure compliance with existing and emerging legislation and monitoring the system to detect and address deficiencies to prevent non-compliance. The board is satisfied that the group has in all material respects complied with the provisions of the PFMA, the Companies Act and other applicable legislation.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in note 6, 13, 14 and 37 of *the consolidated annual financial statements.*

CAPITAL EXPENDITURE

The board approved capital expenditure of R209m whereas R146m was utilised, mainly in upgrading the business unit 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. During the year under review, the Shareholder recapitalised the group by R700m and authorised an increase of issued shares by 7 000 class B ordinary shares at R1 each with a premium of R699 993 000.

DIVIDENDS

No dividend was recommended for the 2012/13 (2011/12: nil) year.

COMPLIANCE WITH ACCOUNTING STANDARDS

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

AUDITORS

The *consolidated annual financial statements* are audited by SizweNtsalubaGobodo. The statutory auditors for the forth coming year is confirmed at the annual AGM.

DIRECTORATE

Sonja Sebotsa resigned as non-executive director during March 2013.

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

EVENTS AFTER REPORTING PERIOD

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

No matters arose between 31 March 2013 and 24 June 2013.


A400M

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 March 2013

		GROUP		COMPANY	
		2013	2012	2013	2012
	Notes	Rm	Rm	Rm	Rm
ASSETS					
Non-current assets		2 177	2 131	2 062	1 881
Property, plant and equipment	10	733	691	614	540
Investment properties	11	482	450	473	450
Intangible assets	12	167	110	154	110
Investments in subsidiaries	13			203	18
Investments in associated companies	14	639	583	477	477
Loans and receivables	15	139	286	139	286
Deferred tax assets	16	17	11	2	-
Current assets		4 497	3 420	4 186	3 013
Inventories	17	713	624	624	550
Trade and other receivables	18	2 263	1 450	2 121	1 203
Reinsurance asset	19	-	21	-	-
Loans and receivables	15	182	193	182	193
Other financial assets	20.1	42	38	42	38
Cash and short-term deposits	21.1	1 257	1 074	1 177	1 009
Cash held on behalf of associated companies	21.2	40	20	40	20
Assets held for sale	5	104	91	104	90
Total assets		**6 778**	**5 642**	**6 352**	**4 984**
EQUITY AND LIABILITIES					
Equity					
Issued capital	22	1 225	1 225	1 225	1 225
Share premium	22	4 951	4 251	4 951	4 251
Other reserves		43	43	43	43
Accumulated loss		(4 755)	(4 824)	(5 052)	(5 198)
Total equity attributable to equity holders of the parent		1 464	695	1 167	321
Non-controlling interest	23	8	-		
Total equity		1 472	695	1 167	321
Non-current liabilities		2 841	1 288	2 829	1 166
Interest bearing loans and borrowings	24	1 406	101	1 398	-
Advance payments received	25	1 169	920	1 169	920
Provisions	26.1	265	260	260	246
Deferred tax liabilities	16	1	7	2	-
Current liabilities		2 465	3 659	2 356	3 497
Trade and other payables	27	946	826	885	740
Interest bearing loans and borrowings	24	507	1 865	490	1 865
Other financial liabilities	20.2	78	48	78	46
Advance payments received	25	410	447	401	412
Income tax payables		-	3	-	-
Provisions	26.2	523	470	502	434
Preference dividend payable to non-controlling interest	23	1	-		
Total liabilities		5 306	4 947	5 185	4 663
Total equity and liabilities		**6 778**	**5 642**	**6 352**	**4 984**

CONSOLIDATED INCOME STATEMENTS

for the year ended 31 March 2013

	Notes	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
CONTINUING OPERATIONS					
Revenue	2	3 918	3 568	3 434	2 823
Cost of sales	3	(3 092)	(2 706)	(2 639)	(2 075)
Gross profit		826	862	795	748
Other income	4	231	196	268	231
Other operating expenses	3	(940)	(958)	(816)	(890)
Operating profit		117	100	247	89
Finance costs	8.1	(143)	(145)	(140)	(147)
Finance income	8.2	36	61	39	62
Share of profit of associated companies	14	72	33		
Profit before tax		82	49	146	4
Income tax expense	9	(11)	(8)	-	-
Profit for the year		**71**	**41**	**146**	**4**
Profit for the year is attributable to					
Equity holders of the parent		71	41		
Non-controlling interest		-	-		
		71	**41**		

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
Profit for the year	71	41	146	4
Other comprehensive income for the the year, net of tax	-	-	-	-
Total comprehensive income for the year net of tax	**71**	**41**	**146**	**4**
Attributable to				
Equity holders of the parent	71	41		
Non-controlling interest	-	-		
	71	**41**		

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2013

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT							
		Issued capital	Share premium	**Revaluation reserves[1]**	Contingency reserves[2]	**Accumulated loss**	Total	**Non- controlling interest**	Total equity
	Notes	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
GROUP									
Balance at 1 April 2011		1 225	4 251	43	1	(4 866)	654	-	654
Total comprehensive income		-	-	-	-	41	41	-	41
Profit for the year				-	-	41	41	-	41
Other comprehensive income				-	-	-	-	-	-
Transfer (from)/to accumulated loss		-	-	-	(1)	1	-	-	-
Acquisition of non-controlling interest	23	-	-	-	-	-	-	-	-
Balance at 31 March 2012		1 225	4 251	43	-	(4 824)	695	-	695
Total comprehensive income		-	-	-	-	71	71	-	71
Profit for the year				-	-	71	71	-	71
Other comprehensive income				-	-	-	-	-	-
Issue of share capital	22	-	700				700	-	700
Issue of share capital by subsidiary to non-controlling interest							-	-	-
Acquisition of non-controlling interest	23			-	-	(2)	(2)	8	6
Balance at 31 March 2013		**1 225**	**4 951**	**43**	**-**	**(4 755)**	**1 464**	**8**	**1 472**
COMPANY									
Balance at 1 April 2011		1 225	4 251	43	-	(5 202)	317		
Total comprehensive income				-	-	4	4		
Profit for the year				-	-	4	4		
Other comprehensive income				-	-	-	-		
Transfer (from)/to accumulated loss				-	-	-	-		
Balance at 31 March 2012		1 225	4 251	43	-	(5 198)	321		
Total comprehensive income				-	-	146	146		
Profit for the year				-	-	146	146		
Other comprehensive income				-	-	-	-		
Issue of share capital	22	-	700				700		
Balance at 31 March 2013		**1 225**	**4 951**	**43**	**-**	**(5 052)**	**1 167**		

[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 SOC Ltd, a subsidiary, is required to raise a contingency reserve of 10% 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 CASH FLOWS

for the year ended 31 March 2013

		GROUP		COMPANY	
		2013	2012	2013	2012
	Notes	Rm	Rm	Rm	Rm
OPERATING ACTIVITIES					
Net cash flows (used in)/from operating activities		(151)	360	(104)	408
Receipts from customers		3 414	3 576	2 852	2 902
Payments to suppliers and employees		(3 792)	(3 767)	(3 312)	(3 068)
Cash utilised in operations	29	(378)	(191)	(460)	(166)
Increase in advance payments received	25	212	507	238	526
Finance costs		(8)	(7)	(6)	(9)
Finance income		17	33	20	34
Dividend received	4	16	16	104	16
Income tax paid		(10)	2	-	7
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(167)	(150)	(333)	(208)
Purchase of property, plant and equipment	10	(146)	(103)	(118)	(73)
Proceeds from sale of property, plant and equipment		10	14	1	-
Purchase of investment properties	11	(12)	-	(4)	-
Proceeds from sale of assets held for sale		1	-	1	-
Purchase of intangible assets	12	(60)	(69)	(56)	(69)
Proceeds on disposal of intangible assets		1	-	1	-
Receipts of loans and receivables		-	5	-	5
Repayments of loan advance to associated companies		40	3	40	3
Acquisition of additional shares in a subsidiary		-	-	(850)	-
Advances to subsidiaries		-	-	653	(74)
Net cash flows before financing activities		(318)	210	(437)	200
FINANCING ACTIVITIES					
Net cash flows from/(used in) financing activities		521	(70)	625	(70)
Repayments of interest bearing borrowings		(1 495)	(5 292)	(1 495)	(5 292)
Proceeds from interest bearing borrowings		1 305	5 236	1 400	5 236
Proceeds from share capital issued		700	-	700	-
Proceeds from non-controlling interest holder		(9)	-	-	-
Decrease/(Increase) in cash managed on behalf of associated companies		20	(14)	20	(14)
Net increase in cash and cash equivalents		203	140	188	130
Cash and cash equivalents					
At the beginning of the year		1 094	954	1 029	899
At the end of the year	21	**1 297**	**1 094**	**1 217**	**1 029**

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

1. CORPORATE INFORMATION

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

The *consolidated annual financial statements* for the year ended 31 March 2013 comprise the company, its subsidiaries and associated companies.

1.1 STATEMENT OF COMPLIANCE

The *consolidated annual financial statements* have been prepared in accordance with IFRS.

Basis of preparation

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

The preparation of *consolidated 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. The actual results may differ from these estimates.

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

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

Changes in accounting policies, reclassifications and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

Basis of consolidation

The *consolidated annual financial statements* reflect the financial position and operating results of the company and its subsidiaries. The accounting policies have been applied consistently throughout the group.

Subsidiaries

Subsidiaries are companies in which the group has the power to govern the financial and operating policies of the business unit so as to obtain benefits from its activities. Typically this will be where the company holds more than 50% 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 (JCE) 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.

When the group ceases to have control, any retained interest in the business unit is remeasured at its fair value, with the change in the carrying amount recognised in profit or loss and it derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest as an associated company, joint venture or financial asset.

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 *consolidated 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 profits and losses of that associated company is not adjusted to account for the difference in year-end. When the group's share of losses exceeds its interest in an associated company, the group's carrying amount is reduced to Rnil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associated company.

Transactions eliminated on consolidation

All inter-group transactions, balances and unrealised gains and losses are eliminated in preparing the *consolidated annual financial statements*. Unrealised gains arising from transactions with associated companies and JCEs are eliminated to the extent of the group's interest in the business unit.

1.2 SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the group's accounting policies, the following judgements and estimates have been made, which are considered to have the most significant effect on the amounts recognised in the *consolidated annual financial statements*:

Revenue, contract risks and onerous contracts

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

The group uses the percentage of completion method in accounting for recognising its contract revenue. The stage of completion is determined based on the costs incurred to date as a percentage of total estimated cost of each contract.

Contract revenue comprises of the initial amount of revenue agreed in the contract, contract variation orders (CVOs) and claims and incentive payments.

Business units in the group evaluate cost to completion on all contracts to determine the extent of revenue to be recognised, as well as to assess the profitability of a contract. In the instance where costs exceed expected revenue, a provision for contract losses is raised. In determining the cost to completion, the following assumptions are used:

- Labour hours are estimated based on a review of the outstanding functionalities and the experience of the project managers in conducting similar processes, as well as their understanding of the requirements. In cases where the process requires new and unique work, anticipated hours are used.
- The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content.
- Manufacturing overheads are allocated pro rata according to *IAS 11 Construction Contracts*. Indirect costs are not specifically allocated to a product or an activity.
- Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases.
- Inflation and rates of exchange adjustments are made based on information supplied by reputable banks.
- 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 R41m (2011/12: R78m) 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 the remaining work underpinning the provision aligned to the cabinet memorandum.

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 four years.

Oryx upgrade programme

The programme is a fixed price fixed-term contract of R460m that was originally due to be completed by June 2012. A cost overrun is expected on the programme due to the expected slippage by 42 months, with the new completion date being December 2015. 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 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. An amount of R2m (2011/12: R24m) was reversed relating to property, plant and equipment that was previously impaired, as business conditions have changed.

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

Site restoration

Certain business units within the group carry out manufacturing and testing activities that contaminate the land on which they are situated. In accordance with the applicable legislation and the group's environmental policy in respect of decontamination, a site restoration provision has been raised of R244m (2011/12: R237m).

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

An estimate of the provision was determined based on consideration of the most stringent but realistic remediation objectives, based on current or future potential land-uses for the sites with due consideration given to the current legislative framework and local best practice.

In determining the provision for decommissioning, three key component costs were considered, namely:
- Remediation of contaminated land (typically soils and waste materials);
- Decommissioning of plant and equipment; and
- Demolition of buildings.

The amount raised as a provision was based on the detail study performed, taking into account the expected timing of decontamination ranging between 3 and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 6.1% (2011/12: 6.5%) have been discounted at an interest rate of 7.9% (2011/12: 8.4%), which is based on the risk free rate of return and the expected long-term inflation rate.

Countertrade

The group endeavours to fulfil its countertrade obligations as indicated in note 28.5 of the *consolidated annual financial statements*. Certain obligations have been transferred to participating parties by means of back-to-back agreements.

Estimates used in calculating these obligations are as follows:

- Obligations for countertrade vary between 60% and 100% of export revenue.
- Calculation of possible liquidated damages or cost of exchanging credits should the group not fulfil its obligations is based on negotiations to exchange countertrade credits or the maximum penalty payable (between 4% and 8.5%) of the obligation as mentioned above.
- Exchange rates as at year-end have been used to convert the obligations to Rand.

Post-employment benefit obligations

The cost of the post-employment medical benefits is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and medical cost inflation. Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

1.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.3.1 REVENUE RECOGNITION

Sale of goods and services

Revenue comprises the invoiced value of goods and services, net of Value Added Tax (VAT), rebates and discounts.

Revenue from the sale of goods is recognised in profit or loss when significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably.

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

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

- For specific identified development contracts of sub-assemblies where there is a significant amount of uncertainty, the stage of completion is based on the extent of achievement of predetermined milestones within the contract. These significant uncertainties are only satisfied once customer certification takes place.
- On all other contracts, the stage of completion is determined with reference to costs incurred to date as a percentage of total estimated costs.

Contract revenue comprises:

a) The initial amount of revenue agreed in the contract;
b) Variations in contract work and incentive payments:
   i) To the extent that it is probable that they will result in revenue;
   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 costs

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 costs 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.

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 unit to be partially disposed, which remains to be consolidated, is not classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets 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 also 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 other comprehensive income, in which case it is recognised in other comprehensive income.

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.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable.
- 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.

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 customer. Where the economic characteristics and risks of the host contract and the embedded derivative are not closely related, then the embedded derivative is recognised separately. The embedded derivative is measured at fair value through profit or loss.

Foreign exchange embedded derivatives are brought into account when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce except if such currency is a common currency. Denel views the USD, GBP and EUR as common currencies.

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

Offset

Where a legally enforceable right of set-off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

Derecognition of financial assets and financial liabilities

Financial assets

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

- The contractual rights to receive cash flows from the asset have expired; or
- The group retains the contractual right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The group has transferred its contractual rights to receive cash flows from the asset and either:
  a) Has transferred substantially all the risks and rewards of the asset of ownership; or
  b) Has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

Where the group has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

1.3.6 FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each of the group's business units are measured using the currency of the primary economic environment in which the business unit operates (the functional currency). The *consolidated annual financial statements* are presented in Rands, which is the group's functional and presentation currency.

Recording of foreign transactions

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

Translation of foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the 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% to 15%
- Manufacturing 10% to 15%

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their 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 and carried at fair value. Lease payments are accounted for as described in the accounting policy for leases.

1.3.8 PROPERTY, PLANT AND EQUIPMENT

Land is stated at its original cost price adjusted for impairment and is not depreciated. Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials, direct labour and the initial estimate, where applicable, of the costs of dismantling and removing the item and restoring the site on which it is located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately.

Depreciation

Depreciation is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the assets to their residual values at the end of their useful lives. Lease improvements on leasehold properties are depreciated over the period of the lease or the expected useful life, whichever is the shorter period.

The estimated useful lives are as follows:
- Buildings 20 to 50 years
- Plant 3 to 40 years
- Machinery and equipment 3 to 60 years
- Vehicles 5 years
- Office furniture 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, and in profit or loss if it is a loss.

Spare parts

Major spare parts and servicing equipment qualify as property, plant and equipment when the group expects to use them 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.

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.

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.

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 customers. These funds are used to finance the execution of contracts, which include advance payments to suppliers, finance long-lead inventory items and work-in-progress. Guarantees are provided to customers for advance payments received. Advance payments received are recognised as a current liability for amount that is estimated to be settled within one year from reporting date and as a non-current liability for the amount to be settled after one year from reporting date. Advance payments received in foreign currency are recognised at the ruling spot rate on the date of receipt. Guarantees provided are disclosed as contingent liabilities.

1.3.15 EMPLOYEE BENEFITS

Pension obligations

The group participates in a defined contribution fund, the assets of which are held in a separate trustee administered fund.

The group's obligations for contributions to the defined contribution retirement fund are recognised as an expense in profit or loss in the year to which they relate.

Other post-retirement obligations

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

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 that require the group to impose countertrade obligations on suppliers in favour of SA on all imported content. Countertrade obligations can be a percentage of the value of the export contract up to 100%. The buyer's country normally requires a combination of the following to discharge the obligation:

- Procurement of products and services from suppliers in the buyer's country; or
- Participation in a business venture or prescribes a form of investment in the buyer's country.

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

1.3.17 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (which includes a measure of segments' assets). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Exco of Denel SOC 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 are 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.

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

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated 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.

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

At the date of authorisation of the *consolidated annual financial statements* for the year ended 31 March 2013, 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 2015
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 7	*Financial Instruments: Disclosures — Amendments enhancing disclosures about offsetting of financial assets and financial liabilities*	December 2011	1 January 2013
	Financial Instruments: Disclosures — Amendments requiring disclosures about the initial application of IFRS 9	December 2011	1 January 2015 (or otherwise when IFRS 9 is first applied)
IAS 1	*Presentation of Financial Statements — Amendments to revise the way other comprehensive income is presented*		
IAS 19	*Employee Benefits (Amendment)*	June 2011	1 January 2013
IAS 27	*Consolidated and Separate Financial Statements — Reissued as IAS 27 Separate Financial Statements (as amended in 2012)*	May 2011	1 January 2013
IAS 28	*Investments in Associates — Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2012)*	May 2011	1 January 2013

STANDARD OR INTERPRETATION	TITLE	ISSUE DATE	EFFECTIVE DATE
IAS 32	*Financial Instruments: Presentation — Amendments to application guidance on the offsetting of financial assets and financial liabilities*	December 2011	1 January 2014
	Annual Improvements	May 2012	1 January 2013
IFRS 1	*First-time Adoption of International Financial Reporting Standards — Repeated application of IFRS 1 — Borrowing costs*		
IAS 1	*Presentation of Financial Statements — Clarification of the requirements for comparative information*		
IAS 16	*Property, Plant and Equipment — Classification of servicing equipment*		
IAS 32	*Financial Instruments: Presentation — Tax effect of distribution to holders of equity instruments*		
IAS 34	*Interim Financial Reporting — Interim financial reporting and segment information for total assets and liabilities*		

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 main features of the standard is that at initial recognition, all financial assets (including hybrid contracts with a financial asset host) are measured at fair value.

Debt instruments

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

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

Debt instruments may be subsequently measured at amortised cost if:

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

All other debt instruments are subsequently measured at fair value.

Equity investments

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

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.

IFRS 11 removes the option to account for JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

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

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 establishes 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.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the group's financial position or performance.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes, such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The group is currently assessing the full impact of the amendments.

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 27 Separate Financial Statements (as revised in 2012)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The group will adopt the changes in of IAS 27 simultaneously with IFRS 10, IFRS 11, IFRS 12 and IAS 28.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2012)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed *IAS 28 Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The group will adopt the changes in of IAS 27 simultaneously with IFRS 10, IFRS 11, IFRS 12 and IAS 28.

IAS 32 Financial Instruments: Presentation

The amendment clarifies the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy of the entity and all of the counterparties.

Annual Improvements (May 2013)

IFRS 1 First-time Adoption of International Financial Reporting Standards. In this amendment, it is stated that an entity can be a first-time adopter more than once. An entity that has in the previous reporting period prepared its financial statements in terms of IFRS, but whose most recent financial statements did not contain an explicit and unreserved statement of compliance is permitted to either apply IFRS 1 when it re-adopts IFRS or *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. A first-time adopter is permitted to apply *IAS 23 Borrowing Costs*, either from the date of transition or an earlier date.

IAS 1 Presentation of Financial Statements. In this amendment, the IASB clarifies the requirements for providing comparative information for the opening statement of financial position when an entity changes its accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 and the requirements for providing comparative information when an entity provides financial statements beyond the minimum comparative information requirements.

IAS 16 Property, Plant and Equipment. This amendment states that major spare parts and stand-by equipment may be recognised as property, plant and equipment, provided that the definition of property, plant and equipment is met.

IAS 32 Financial Instruments: Presentation. This amendment clarifies that income taxes on distributions to equity holders and transaction costs should be accounted for in terms of *IAS 12 Income Taxes*.

IAS 34 Interim Reporting. The amendment provides that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision-maker; and there has been a material change from those measures disclosed in the last *consolidated annual financial statements* for that reportable segment.

		GROUP		COMPANY	
		2013	2012	2013	2012
		Rm	Rm	Rm	Rm
2	**REVENUE**				
	Sale of goods and services	3 846	3 498	3 349	2 739
	Rental income	72	70	85	84
		3 918	**3 568**	**3 434**	**2 823**
3	**COST OF SALES AND OTHER OPERATING EXPENSES**				
	Cost of sales and other operating expenses are arrived at after taking the following items into account				
	Amortisation of intangible assets (refer note 12)				
	Software	16	16	16	16
	Impairment (reversed)/raised	(67)	(31)	(22)	109
	Property, plant and equipment (refer note 10)	(2)	(24)	(2)	-
	Intangible assets (refer note 12)	(5)	-	(5)	-
	Investments in subsidiaries (refer note 13)	-	-	1	65
	Inventories (refer note 17)	(56)	(5)	(7)	46
	Trade and other receivables (refer note 18)	(4)	(2)	(9)	(2)
	Auditors' remuneration	11	18	9	14
	Current year	10	15	9	14
	Other	1	3	-	-
	Depreciation (refer note 10)	97	93	76	71
	Buildings	11	11	10	10
	Plant and machinery	57	55	42	40
	Vehicles and office furniture	13	11	9	5
	Computer equipment	16	16	15	16
	Operating expenses for investment properties	125	120	125	120
	Operating lease payments	73	82	70	80
	Buildings	63	71	63	71
	Plant and machinery	3	1	1	-
	Vehicles and office furniture	3	2	3	2
	Computer equipment	4	8	3	7
	Directors' remuneration [2]	13	15	13	15
	Executive directors	10	11	10	11
	Non-executive directors	3	4	3	4
	Costs of inventories recognised as an expense	946	1 031	892	692
	Loss on disposal of assets				
	Property, plant and equipment	2	-	-	-
	R&D costs [1]	428	635	426	585
	Staff costs	1 663	1 563	1 484	1 178
	Services costs	1 417	1 347	1 138	976
	Staff and related provisions	12	40	148	50
	Medical fund contributions	87	81	75	67
	Termination benefits paid	26	1	21	1
	Pension costs: Defined contribution plan	107	90	88	81
	Other long-term benefit contributions	14	4	14	3

[1] *The R&D costs are mainly customer funded. This does not include an amount of R45m (2011/12: R59m) charged against provisions and R55m (2011/12: R58m) that has been capitalised.*

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

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
4 OTHER OPERATING INCOME				
Administration and management fees	-	-	7	9
Royalties income [1]	-	3	-	3
Fair value adjustment on investment properties (refer note 11)	33	92	31	92
Net gains on financial instruments (refer note 7)	79	76	73	80
Profit on disposal of property, plant and equipment	1	5	-	-
Dividends received	-	-	104	16
Other [2]	118	20	53	31
	231	**196**	**268**	**231**

[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, discount received and a gain of R78m (2011/12: Rnil) that related to the early settlement of a loan.*

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
5 ASSETS HELD FOR SALE				
Property, plant and equipment (refer note 10)	-	1	-	-
Investment properties (refer note 11)	104	90	104	90
	104	**91**	**104**	**90**

The property, plant and equipment relates to a specific unutilised machine which was disposed during 2012/13.

Investment properties relates to the Phillippi facility that was recently vacated by RDM. The negotiations relating to the selling of the property are at an advanced stage.

6 ACQUISITION AND DIVISIONALISATION OF SUBSIDIARIES

There were no acquisitions and/or divisionalisation of subsidiaries during the 2011/12 financial year.

6.1 Acquisition of LMT

On 11 May 2012 Denel acquired 51% of the issued ordinary shares of LMT, an unlisted company, whose core business is the provision of protected vehicle solutions. The company has acquired LMT to broaden its landward capability for a new product range. The acquisition was for a purchase consideration of R100 on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies.

At date of acquisition the interest of LMT in its subsidiaries were as follows:

- LMT Products (Pty) Ltd 90%
- LMT Engineering (Pty) Ltd 100%
- LMT Properties (Pty) Ltd 76%

The group has elected to measure the non-controlling interest of the acquiree at cost.

		COMPANY 2013 Rm
6	**ACQUISITION AND DIVISIONALISATION OF SUBSIDIARIES (CONTINUED)**	
6.1	**Acquisition of LMT *(continued)***	
	The fair value of the identifiable assets and liabilities of LMT and its subsidiaries as at date of acquisition were	
	Assets	65
	Property, plant and equipment (refer note 10)	3
	Investment properties (refer note 11)	8
	Intangible assets (refer note 12)	1
	Deferred tax assets (refer note 16)	17
	Inventories	24
	Trade and other receivables	12
	Liabilities	68
	Non-current interest bearing loans and borrowings	11
	Trade and other payables	23
	Advance payments received	30
	Bank overdraft	4
	Total identifiable net assets at fair value	**(3)**
	Non-controlling interest	(9)
	Goodwill arising on acquisition	9
	Purchase consideration	-

The intangible assets includes internal generated intellectual property valued at R1m (carrying amount at acquisition R1m).

The non-controlling interest includes preference shares issued to Ventures Business 1513 (Pty) Ltd (a subsidiary of Pamodzi Investment Holdings Ltd) of R15m plus undeclared accumulated dividends of R1m.

The goodwill of R9m comprises the value of the expected synergies arising from the acquisition. Due to the similarity in the customer list, it is not separable and therefore does not meet the recognition as an intangible asset under *IAS 38 Intangible assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

From date of acquisition, LMT has contributed R74m of revenue and R0.614m to net profit before tax of the group.

Immediately after acquisition, the company subscribed to 3 492 preference shares to the amount of R13m. The company together with the other shareholders guaranteed overdraft facilities to the amount of R15m. These actions improved the solvency and liquidity of LMT.

	COMPANY		
	2013		
	Mechem	DPS	Total
	Rm	Rm	Rm

6 ACQUISITION AND DIVISIONALISATION OF SUBSIDIARIES (CONTINUED)

6.2 Divisionalisation of subsidiaries' businesses

On 25 September 2012, as part of the restructuring of the group, the company divisionalised two of its subsidiaries, i.e. Mechem SOC Ltd and Denel Personnel Solutions SOC Ltd. Both subsidiaries have been deregistered and the assets and liabilities were brought into account at the carrying amount at date of divisionalisation. The Mechem business is integrated with DLS and the DPS business is integrated with DAv.

	Mechem Rm	DPS Rm	Total Rm
Assets	306	60	366
Property, plant and equipment (refer note 10)	33	-	33
Inventories	43	-	43
Trade and other receivables	103	36	139
Prepayments made	6	1	7
Current interest bearing receivables	120	23	143
Derivative financial assets	1	-	1
Liabilities	55	61	116
Trade and other payables	32	57	89
Advance payments received	21	-	21
Provisions	2	4	6
Total identifiable net assets at carrying amount	**251**	**(1)**	**250**
Purchase consideration	**251**	**(1)**	**250**
Dividends received as a result of closure of subsidiaries	**41**	**48**	**89**

From date of acquisition, the respective revenue and net profit before tax are included in the results of DAv and DLS business units respectively.

		GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
		Rm	Rm	Rm	Rm
7	**NET GAINS ON FINANCIAL INSTRUMENTS**				
7.1	Net foreign exchange differences	79	73	73	77
	Losses on settled transactions	(33)	(56)	(32)	(39)
	Gains on settled transactions	90	128	84	116
	Losses on fair value adjustments	(88)	(41)	(85)	(38)
	Gains on fair value adjustments	82	7	78	3
	Losses on firm commitment remeasurement	(19)	(16)	(19)	(16)
	Gains on firm commitment remeasurement	47	51	47	51
7.2	Net differences on commodity derivatives				
	Gains on fair value adjustments	-	3	-	3
		79	**76**	**73**	**80**
8	**NET FINANCE COSTS**				
	The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables)				
8.1	Finance costs				
	Current interest bearing borrowings	118	114	115	114
	Non-current interest bearing borrowings				
	Finance leases	1	-	-	-
	Intergroup finance costs			1	2
	Finance costs on financial liabilities	119	114	116	116
	Unwinding of discount on provisions	24	31	24	31
	Total finance costs (refer note 29)	**143**	**145**	**140**	**147**
8.2	Finance income				
	Gross interest received	36	61	33	57
	Intergroup finance income			6	5
	Total finance income (refer note 29)	**36**	**61**	**39**	**62**
	Net finance costs	**107**	**84**	**101**	**85**
9	**INCOME TAX EXPENSE**				
	SA Normal tax				
	Current tax	7	9	-	-
	Deferred tax (refer note 16)	4	(1)	-	-
		11	**8**	**-**	**-**
	No provision for SA Normal tax has been made for any companies within the group that are in a calculated tax loss position.				
		%	%	%	%
	Reconciliation of tax rate				
	Effective tax rate	13.4	16.3	-	-
	Adjustment in tax rate due to	14.6	11.7	28.0	28.0
	Exempt income	30.5	16.0	20.1	289.6
	Deferred tax asset not recognised	14.3	36.3	31.3	883.9
	Impairment of investments	-	-	-	(437.8)
	Taxable at capital gains tax rate	(3.7)	17.8	(2.0)	205.5
	Share of associated companies	24.7	18.9	-	-
	Other	(51.2)	(77.3)	(21.4)	(913.2)
	SA Normal tax rate	**28.0**	**28.0**	**28.0**	**28.0**

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
9 INCOME TAX EXPENSE (CONTINUED)				
The calculated tax losses available for offset against future taxable income are as follows				
Calculated tax losses	5 683	6 074	4 568	4 810
Capital gains tax losses	171	175	171	175
Net available calculated tax losses	**5 854**	**6 249**	**4 739**	**4 985**

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
10 PROPERTY, PLANT AND EQUIPMENT					
GROUP					
2013					
Carrying value at 1 April	240	374	46	31	691
Additions	26	99	11	10	146
Business acquired (refer note note 6.1)	-	3	-	-	3
Disposals	(1)	(8)	-	(2)	(11)
Transfer to investment properties (refer note 11)	-	(1)	-	-	(1)
Impairment reversal for the year (refer note 3)	-	2	-	-	2
Depreciation for the year (refer note 3)	(11)	(57)	(13)	(16)	(97)
Carrying value at 31 March	**254**	**412**	**44**	**23**	**733**
Cost	408	1 453	126	169	2 156
Accumulated depreciation and impairment	(154)	(1 041)	(82)	(146)	(1 423)
Carrying value at 31 March	**254**	**412**	**44**	**23**	**733**
2012					
Carrying value at 1 April	240	350	37	33	660
Additions	11	58	20	14	103
Disposals	-	(2)	-	-	(2)
Transfer to assets held for sale (refer note 5)	-	(1)	-	-	(1)
Impairment for the year (refer note 3)	-	24	-	-	24
Depreciation for the year (refer note 3)	(11)	(55)	(11)	(16)	(93)
Carrying value at 31 March	**240**	**374**	**46**	**31**	**691**
Cost	384	1 357	118	160	2 019
Accumulated depreciation and impairment	(144)	(983)	(72)	(129)	(1 328)
Carrying value at 31 March	**240**	**374**	**46**	**31**	**691**

	Land and buildings	Plant and machinery	Vehicles and office furniture	Computer equipment	Total
	Rm	Rm	Rm	Rm	Rm
10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)					
COMPANY					
2013					
Carrying value at 1 April	239	254	17	30	540
Additions	16	88	5	9	118
Business units acquired (refer note 6.2)	-	3	30	-	33
Disposals	-	-	-	(2)	(2)
Transfer to investment properties (refer note 11)	-	(1)	-	-	(1)
Impairment reversal for the year (refer note 3)	-	2	-	-	2
Depreciation for the year (refer note 3)	(10)	(42)	(9)	(15)	(76)
Carrying value at 31 March	**245**	**304**	**43**	**22**	**614**
Cost	398	1 141	122	154	1 815
Accumulated depreciation and impairment	(153)	(837)	(79)	(132)	(1 201)
Carrying value at 31 March	**245**	**304**	**43**	**22**	**614**
2012					
Carrying value at 1 April	239	249	18	32	538
Additions	10	45	4	14	73
Depreciation for the year (refer note 3)	(10)	(40)	(5)	(16)	(71)
Carrying value at 31 March	**239**	**254**	**17**	**30**	**540**
Cost	382	1 048	57	150	1 637
Accumulated depreciation and impairment	(143)	(794)	(40)	(120)	(1 097)
Carrying value at 31 March	**239**	**254**	**17**	**30**	**540**

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

Owing to the operating losses at certain of the business units within the group, the property, plant and equipment have been assessed for impairment. *IAS 36 Impairment of Assets* provides that the recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The impairment was based on the fair value less cost to sell for all property, plant and equipment items. Certain property, plant and equipment were impaired in the recent past due to a lack of orders, whilst no new impairment raised this year.

Plant and machinery includes assets under construction of R30m (2011/12: R18m) for the group and R24m (2011/12: R11m) for the company.

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
11 INVESTMENT PROPERTIES				
Fair value at 1 April	450	448	450	448
Additions	4	-	4	-
Business acquired (refer note 6.1)	8	-	-	-
Transfer from property, plant and equipment (refer note 10)	1	-	1	-
Fair value adjustment (refer note 4)	33	92	31	92
Transfer to assets held for sale during the year (refer note 5)	(14)	(90)	(13)	(90)
Fair value at 31 March	**482**	**450**	**473**	**450**

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 INVESTMENT PROPERTIES (CONTINUED)

The property division of Denel has over the past six years not actively marketed the Houwteq property based in the Western Cape. However, the business unit continues to be in discussion with the DST 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 as assets held for sale at this stage.

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
12 INTANGIBLE ASSETS				
Development costs	122	67	118	67
At cost	146	155	142	155
Accumulated amortisation and impairment	(24)	(88)	(24)	(88)
Software	36	43	36	43
At cost	106	103	106	103
Accumulated amortisation and impairment	(70)	(60)	(70)	(60)
Goodwill	9	-	-	-
At cost	79	-	-	-
Accumulated impairment	(70)	-	-	-
Total carrying value at 31 March	**167**	**110**	**154**	**110**
Reconciliation				
Development costs				
Carrying value at 1 April	67	9	67	9
Capitalised during the year	55	58	51	58
Carrying value at 31 March	**122**	**67**	**118**	**67**
Software				
Carrying value at 1 April	43	48	43	48
Additions	4	11	5	11
Business acquired (refer note 6.1)	1	-	-	-
Disposals	(1)	-	(1)	-
Impairment reversal for the year (refer note 3)	5	-	5	-
Amortisation for the year (refer note 3)	(16)	(16)	(16)	(16)
Carrying value at 31 March	**36**	**43**	**36**	**43**
Goodwill				
Carrying value at 1 April	-	-	-	-
Additions	9	-	-	-
Carrying value at 31 March	**9**	**-**	**-**	**-**
Total carrying value at 31 March	**167**	**110**	**154**	**110**

		COMPANY	
		2013	2012
		Rm	Rm
13	**INVESTMENTS IN SUBSIDIARIES**		
	Unlisted shares	1 710	860
	Net loans	(116)	548
	Amounts due by subsidiaries (refer note 37)	336	606
	Amounts due to subsidiaries (refer note 33.4)	(452)	(58)
	Gross investments	1 594	1 408
	Accumulated impairment	(1 391)	(1 390)
	Carrying value at 31 March	**203**	**18**
	Reconciliation of carrying value of investments in subsidiaries		
	Gross investment	1 594	1 408
	Accumulated impairment	(1 391)	(1 390)
	Carrying value at 31 March	**203**	**18**
	The accumulated impairment loss on investments in subsidiaries is as follows		
	Unlisted shares	1 055	789
	Balance at 1 April	789	789
	Impairment for the year	266	-
	Loans	336	601
	Balance at 1 April	601	621
	Impairment for the year	(265)	65
	Amounts written-off due to subsidiaries wind-up	-	(85)
		1 391	**1 390**

A detailed breakdown of the investments in subsidiaries is contained in note 37.

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
14 INVESTMENT IN ASSOCIATED COMPANIES				
The group holds a 49% interest in TMA. The year-end of TMA is 31 December.				
The group holds a 30% interest in Cassidian. The year-end of Cassidian is 30 September.				
The group holds a 49% interest in RDM. The year-end of RDM is 31 December.				
Cost of investments in associated companies				
Unlisted shares	477	477	477	477
Net share of results in associated companies	162	106		
Share of current year profit before tax	93	42		
Share of current year tax	(21)	(9)		
Share of current year profit after tax (refer note 29)	72	33		
Dividends paid by associated companies	(16)	(16)		
Accumulated profit at 1 April	106	89		
Total net investments in associated companies (refer note 37)	**639**	**583**	**477**	**477**
The following represents the summarised financial information of the associated companies				
Total assets	2 043	2 366		
Non-current assets	592	574		
Current assets	1 451	1 792		
Total liabilities	287	1 372		
Non-current liabilities	13	77		
Current liabilities	274	1 295		
Net assets	**1 756**	**994**		
Group's share of associated companies' net assets	1 095	440		
Revenue	3 228	1 739		
Group's share of revenue	1 476	770		
Group's share of profit before tax	72	42		

A detailed breakdown of the investments in associated companies is contained in note 37.

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
15 LOANS AND RECEIVABLES				
15.1 Loans receivable				
Loans at amortised cost				
Loans to an associated company (refer note 33.4)	62	102	62	102
Less: Current portion of loans receivable				
Loans to an associated company	(45)	(85)	(45)	(85)
Non-current loans receivable	**17**	**17**	**17**	**17**

The loans to an associated company (RDM) comprise two separate loans. The non-current loan of R17m (2011/12: R17m) 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 associated company to meet its short-term bridging finance, is repayable on 30 June 2013 and earns interest at a rate based on the three-month JIBAR plus 1.4% per annum. The parent company of the associated company guarantees 51% of the outstanding balance of the loan.

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
15.2 Pension asset				
Gross amount receivable (refer note 33.4)	259	377	259	377
Less: Current portion of pension holiday receivable	(137)	(108)	(137)	(108)
Non-current portion	**122**	**269**	**122**	**269**

The pension asset relates to the unutilised balance of the pension surplus. DenPen, a defined benefit fund, became a pensioners' alone fund on 1 September 2010 following a decision by the trustees and members, and as a result Denel withdrew as a principal employer. The actuarial surplus in the fund mostly 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 underlining the actuarial surplus allocated to Denel were transferred to DenRet and are accessed by Denel through a contribution holiday over the next three years. These assets are mainly invested in the money market.

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
Total non-current loans receivable	139	286	139	286
Total current loans and receivables	182	193	182	193
Refer note 33.1 and 33.3	**321**	**479**	**321**	**479**

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
16 DEFERRED TAX				
Deferred tax assets	17	11	2	-
Deferred tax liabilities	(1)	(7)	(2)	-
	16	**4**	**-**	**-**
Movement of deferred tax assets and liabilities				
Balance at 1 April	3	3	-	-
Per income statement	(4)	1	-	-
Business acquired (note 6.1)	17	-	-	-
	16	**4**	**-**	**-**
Net deferred tax asset comprises				
Provisions	287	248	275	229
Property, plant and equipment allowance	7	22	7	3
Advanced payments received	442	383	440	373
Amounts due to customers for work invoiced, not yet performed	30	7	30	7
Embedded derivative liabilities	1	4	1	4
Other tax deductible differences	208	160	138	110
Limit deferred tax asset to liability	(652)	(532)	(565)	(476)
Assessed loss	17	1	-	-
	340	**293**	**326**	**250**
Net deferred tax liability comprises				
Capital allowances	(95)	(110)	(114)	(111)
Doubtful debt allowance	(4)	(5)	(4)	(5)
Prepayments made	(3)	(4)	(3)	(4)
Amount due from customers for contract work	(221)	(163)	(205)	(129)
Reinsurance asset	-	(6)	-	-
Other taxable differences	(3)	(1)	(1)	(1)
	(326)	**(289)**	**(327)**	**(250)**

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 639m (2011/12: R1 709m) for the group and R1 327m (2011/12: R1 396m) for the company.

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
17 INVENTORIES				
Inventories are valued at the lower of cost and net realisable value and are categorised as follows				
Raw materials and bought-out components	166	123	106	94
Work-in-progress	219	287	201	253
Contracts-in-progress	2	2	-	-
Finished products	267	160	258	153
Consumable inventory	59	52	59	50
	713	**624**	**624**	**550**
Accumulated impairment	**200**	**258**	**191**	**200**
Net amount of (write back)/write-down of inventories recognised as an expense	**(56)**	**(5)**	**(7)**	**46**
18 TRADE AND OTHER RECEIVABLES				
Financial assets (refer note 33.4)	1 168	643	1 100	521
Trade receivables (refer note 33.1)	1 107	614	1 040	483
Trade receivables: Intergroup			10	11
Interest accrued (refer note 33.1)	1	2	1	2
Other receivables (refer note 33.1)	60	27	49	25
Non-financial assets	1 095	807	1 021	682
Amount due from customers for contract work	789	580	731	460
Prepayments and advances made	293	220	277	215
Other receivables	13	7	13	7
	2 263	**1 450**	**2 121**	**1 203**

Trade receivables

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

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
Trade receivables' impairment account reconciliation				
Individually impaired				
Balance at 1 April	68	72	68	71
Impairment losses recognised	23	13	18	13
Written off as non-collectable	(1)	(2)	(1)	(1)
Recovered during the year	(13)	(1)	(14)	(1)
Impairment losses reversed	(14)	(14)	(13)	(14)
Subsidiaries divisionalised	-	-	5	-
	63	**68**	**63**	**68**
19 REINSURANCE ASSET				
Balance at 1 April	21	20	-	-
Policy cancelled	(21)	-	-	-
Reinsurance income	-	1	-	-
	-	**21**	**-**	**-**

Densecure (SOC) Ltd, a subsidiary and captive insurance company to the group, had a reinsurance asset with Centriq Insurance Company Limited. In terms of the policy a performance bonus was payable to Densecure when the annual premium paid exceeds the amount deductible in terms of costs and claims during the year. The policy was cancelled and the contingent asset realised during the year under review.

	GROUP		COMPANY	
	2013	2012	**2013**	2012
	Rm	Rm	**Rm**	Rm
20 OTHER FINANCIAL ASSETS AND LIABILITIES				
20.1 Other financial assets				
Derivatives	7	9	7	9
Foreign exchange contracts	7	-	7	-
Foreign exchange options	-	9	-	9
Firm commitments	35	29	35	29
Foreign exchange contracts designate as fair value hedges	15	12	15	12
Foreign exchange options designate as fair value hedges	20	17	20	17
Refer note 33.4	**42**	**38**	**42**	**38**
20.2 Other financial liabilities				
Derivatives (refer note 33.2)	72	26	72	25
Foreign exchange contracts	46	9	46	8
Foreign exchange options	26	17	26	17
Embedded derivatives				
Foreign exchange embedded derivatives	4	15	4	14
Firm commitments				
Foreign exchange contracts designate as fair value hedges	2	7	2	7
Refer note 33.4	**78**	**48**	**78**	**46**
21 CASH AND CASH EQUIVALENTS				
Cash and short-term deposits (refer note 21.1)	1 257	1 074	1 177	1 009
Cash held on behalf of associated companies (refer note 21.2)	40	20	40	20
	1 297	**1 094**	**1 217**	**1 029**
21.1 Cash and short-term deposits				
Deposits				
Local call deposits	969	594	915	541
Cash in bank	328	500	302	488
Local banks	238	93	212	83
Foreign banks	90	407	90	405
	1 297	1 094	1 217	1 029
Less: Amount managed on behalf of associated companies (refer note 21.2, 24, 33.2 and 33.3)	(40)	(20)	(40)	(20)
Refer note 33.4	**1 257**	**1 074**	**1 177**	**1 009**

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits is 5.4% (2011/12: 5.4%). Interest on cash in bank is earned at market rates. The funds included in cash and short-term deposits are available on demand.

		GROUP		COMPANY	
		2013	2012	2013	2012
		Rm	Rm	Rm	Rm
21	**CASH AND CASH EQUIVALENTS (CONTINUED)**				
21.2	**Cash held on behalf of associated companies**				
	Amount managed on behalf of associated companies	40	20	40	20

The amount disclosed as *Cash held on behalf of associated companies*, is cash managed on behalf of the associated companies under service level agreements. Currently, the cash is held in the group's name until instruction is received from the associated companies and the cash, guarantees and derivative financial instruments can be transferred to their own bank or investment accounts (refer to note 21.1, 24, 28.1, 33.3 and 33.4).

		GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
22	**ISSUED CAPITAL**				
	Authorised capital				
	1 000 000 000 Class A ordinary shares of R1 each	1 000	1 000	1 000	1 000
	232 455 747 Class B ordinary shares of R1 each	232	232	232	232
		1 232	1 232	1 232	1 232
	Issued capital				
	Shares at par value				
	Class A ordinary shares	1 000	1 000	1 000	1 000
	Class B ordinary shares	225	225	225	225
		1 225	1 225	1 225	1 225
	Share premium				
	Balance at 1 April	4 251	4 251	4 251	4 251
	Premium on shares issued	700	-	700	-
		4 951	4 251	4 951	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 225 056 663 (2011/12: 225 049 663). During the year 7 000 class B ordinary shares (2011/12: nil) were issued to the Shareholder.

The unissued shares are under the control of the SA Government, which is the sole Shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur.

		GROUP 2013 Rm	GROUP 2012 Rm
23	**NON-CONTROLLING INTEREST**		
	Balance at 1 April	-	-
	Acquisition of additional ownership interest in subsidiary (refer note 6.1)	9	-
	Preference dividend payable to non-controlling interest	(1)	-
		8	-

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
24 INTEREST BEARING LOANS AND BORROWINGS				
Unsecured loans	1 406	101	1 398	-
Unsecured loan from non-controlling interest shareholders (refer note 24.1)	6	101	-	-
Unsecured mortgage	2	-	-	-
Unsecured bonds (refer note 24.2)	1 398	-	1 398	-
Non-current portion of interest bearing loans and borrowings	1 406	101	1 398	-
Current portion of interest bearing loans and borrowings	507	1 865	490	1 865
Bank overdraft (refer note 33.3)	16	-	-	-
Commercial paper (refer note 24.3 and 33.3)	450	1 845	450	1 845
Cash managed on behalf of associated companies (refer note 21.1, 21.2, 33.2 and 33.3)	40	20	40	20
Current portion of non-current borrowings included in current liabilities	1	-	-	-
Total interest bearing loans and borrowings	**1 913**	**1 966**	**1 888**	**1 865**

24.1 Unsecured loan from non-controlling interest shareholders

The unsecured loan in 2012 represents borrowings of DAe from its former non-controlling interest shareholder and bears no interest since 1 April 2010 (previously prime lending rate minus 2%). Originally the loan was repayable in February 2014, but due to the financial difficulty of the subsidiary, it was agreed that the amount would be repaid when the business is in a position to do so. During the year a full and final settlement was negotiated at R22m and a revaluation gain recognised of R79m. The amount reflected in 2013 relates to borrowings by LMT from its non-controlling shareholders at an interest rate of 8.5% repayable when the business is in a position to do so.

The commercial paper programme is a five-year debt instrument issued as part of the DMTN programme. The notes are 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. 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 guarantee, guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims which it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment, the guarantor will repay the debt. These guarantees expire on 30 September 2017.

24.2 Unsecured bonds

The borrowings have been raised through the issuance of three-and five-year bonds totalling R1.4bn (2011/12: Rnil). The three-year bond was issued on 28 January 2013 at an interest rate of 5.881% and matures on 28 January 2016. The five-year bond was issued on 28 January 2013 at an interest rate of 6.860% and matures on 29 September 2017. These borrowings are backed by a five year government guarantee. The interest rate is linked to JIBAR.

24.3 Commercial paper

The R450m relates to commercial paper that was issued. The notes were issued on 2 October 2012 with maturity at 3 April 2013 at an interest rate of 5.231%. Further notes were issued on 28 January 2013 with maturity at 29 April 2013 at an interest rate of 5.394%. The interest rate is linked to JIBAR.

The undrawn borrowing facilities available for future operating activities amount to R350m (2011/12: R390m). Refer to note 33.4 for fair value.

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
24 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)				
	%	%	%	%
Weighted average effective interest rates				
Local unsecured loans (fixed rate)	6.4	6.7	6.4	6.7
Short-term bank borrowings (floating rate)	5.8	5.8	5.8	5.8
	Rm	Rm	Rm	Rm
Summary of maturity of borrowings				
Maturing within 12 months	507	1 865	490	1 865
Maturing within 12 to 60 months	1 406	101	1 398	-
	1 913	**1 966**	**1 888**	**1 865**
25 ADVANCE PAYMENTS RECEIVED				
Non-current advance payments received	1 169	920	1 169	920
Current advance payments received	410	447	401	412
	1 579	**1 367**	**1 570**	**1 332**
The carrying amount of the advance payment is expected to be settled as follows				
Less than one year	410	447	401	412
Between one and two years	227	206	227	206
Between two and five years	877	637	877	637
More than five years	65	77	65	77
	1 579	**1 367**	**1 570**	**1 332**

During 2011/12 the group entered into two large long-term contracts on which advance payments were received. These advance payments will be settled over a period of up to seven years and therefore the portion of the liability that will be settled more than 12 months after the reporting period is classified as non-current (refer note 28.1).

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
26 PROVISIONS				
26.1 Non-current provisions	265	260	260	246
Contract risks and onerous contracts	20	36	15	22
Product warranty and recall	29	28	29	28
Site restoration	216	196	216	196
26.2 Current provisions	523	470	502	434
Contract risks and onerous contracts	64	124	71	124
Performance guarantees	34	41	34	41
Product warranty and recall	48	63	45	60
Site restoration	28	41	28	41
Insurance	3	5	-	-
Other	346	196	324	168
	788	**730**	**762**	**680**

	Contract risks and onerous contracts	Performance guarantees	Product warranty and recall	Site restoration	Insurance provision	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
26 PROVISIONS (CONTINUED)							
Reconciliation							
GROUP							
2013							
Balance at 1 April	160	41	91	237	5	196	730
Realised	(67)	-	(15)	(12)	(2)	(162)	(258)
Unused amounts reversed	(25)	(14)	(32)	-	-	(6)	(77)
Unwinding of discount on provisions	7	-	1	16	-	-	24
Charged to the income statement	9	7	32	3	-	318	369
	84	**34**	**77**	**244**	**3**	**346**	**788**
2012							
Balance at 1 April	302	36	118	237	11	166	870
Realised	(146)	-	(23)	(26)	(6)	(132)	(333)
Unused amounts reversed	(26)	-	(20)	-	-	(3)	(49)
Unwinding of discount on provisions	11	-	1	19	-	-	31
Charged to the income statement	19	5	15	7	-	165	211
	160	**41**	**91**	**237**	**5**	**196**	**730**
COMPANY							
2013							
Balance at 1 April	146	41	88	237	-	168	680
Realised	(53)	-	(13)	(12)	-	(135)	(213)
Unused amounts reversed	(25)	(14)	(32)	-	-	(5)	(76)
Unwinding of discount on provisions	7	-	1	16	-	-	24
Charged to the income statement	11	7	30	3	-	290	341
Business units acquired (refer note 6.2)	-	-	-	-	-	6	6
	86	**34**	**74**	**244**	**-**	**324**	**762**
2012							
Balance at 1 April	271	36	118	237	-	133	795
Realised	(126)	-	(23)	(26)	-	(99)	(274)
Unused amounts reversed	(19)	-	(20)	-	-	(3)	(42)
Unwinding of discount on provisions	11	-	1	19	-	-	31
Charged to the income statement	9	5	12	7	-	137	170
Business units acquired (refer note 6)	-	-	-	-	-	-	-
	146	**41**	**88**	**237**	**-**	**168**	**680**

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.

26 PROVISIONS (CONTINUED)

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 affected persons, as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R144m (2011/12: Rnil) for the group and the company.

Variable remuneration

Provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is R155m (2011/12: R150m) for the group and R132m (2011/12: R122m) for the company.

Legal costs and disputes

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or entities within the group are involved, also refer to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R7m (2011/12: R13m) 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 R41m (2011/12: R33m) for the group and for the company.

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
27 TRADE AND OTHER PAYABLES				
Financial liabilities (refer note 33.2 and 33.4)	837	801	776	715
Trade payables	497	490	457	447
Trade payables: Intergroup			13	5
Interest accrued	22	17	21	17
Other payables	318	294	285	246
Non-financial liabilities	109	25	109	25
Amounts due to customers for work invoiced, not yet performed	109	25	109	25
	946	**826**	**885**	**740**

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 24).

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
28 CONTINGENT LIABILITIES				
28.1 Guarantees				
The following guarantees were issued by the group				
Advance payments guarantees	2 162	1 318	2 162	1 318
Performance guarantees	760	622	760	622
Participating guarantees	1	11	1	11
Guarantees to local authorities	5	7	5	7
Guarantees to banks for credit facilities	57	545	57	545
Other guarantees	164	111	164	111
Total guarantees issued	3 149	2 614	3 149	2 614
Guarantees issued on behalf of associated companies	(174)	(181)	(174)	(181)
Advance payments guarantees	(56)	(53)	(56)	(53)
Performance guarantees	(52)	(59)	(52)	(59)
Guarantees to banks for credit facilities	(55)	(55)	(55)	(55)
Guarantees to local authorities	(1)	(1)	(1)	(1)
Sundry guarantees	(10)	(13)	(10)	(13)
	2 975	2 433	2 975	2 433
Recognised in the consolidated annual financial statements	(1 613)	(1 408)	(1 604)	(1 373)
Advance payments received (refer note 25)	(1 579)	(1 367)	(1 570)	(1 332)
Provision for performance guarantees (refer note 26)	(34)	(41)	(34)	(41)
	1 362	**1 025**	**1 371**	**1 060**

28.2 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 R8m (2011/12: R20m). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims other than that which have already been provided. Details of some of the key issues are provided below:

The group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of contracts that were in progress and the loss of potential contracts, as well as the call up of related performance guarantees. The customer has notified the Government of its intention to proceed with the matter. It is expected that the matter may involve legal proceedings in a SA 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.

28.3 Contract losses

One of the group's subsidiaries is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately R2.5bn and an estimated contract loss of approximately R1.3bn. This loss has not been raised as a provision following a written commitment received from the Shareholder stating its support, including financial for the continuation of the contract despite it being loss-making, as it has certain strategic advantages to the country. During 2012/13 various onerous terms and conditions to the contract were renegotiated to mitigate risk to the company and Shareholder.

28.4 Site restoration

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 15% 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 ordnance to assess whether there should be any further clean up, which may impact the provision. Had the contingency been included, the provision would have been increased by R37m (2011/12: R35m) for the group and company.

28 CONTINGENT LIABILITIES (CONTINUED)

28.5 Countertrade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60% and 100% of the export sales contract value.

These countertrade obligations can be fulfilled in one or a combination of the following ways:

- Production work share and technology transfer.
- Procurement of products and services from suppliers in the buyer's country.
- Participation in a business venture in the buyer's country.
- Exchange of countertrade obligations with companies from buyers' countries that have countertrade obligations in SA.

The group is constantly in negotiations to conclude any outstanding portion of the countertrade obligation. The group issued guarantees to the value of R43m (2011/12: R33m) for penalties on non-fulfilment of countertrade obligations.

The group has entered into local defence contracts that require the group to impose countertrade obligations in favour of SA on all imported content. The group has, therefore, entered into back-to-back agreements with the suppliers to ensure that this obligation is offset. The group received bank guarantees from all the said suppliers which were ceded to the customer.

The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

The table below summarises the group's countertrade position:

	2013			2012		
	Export contracts	Local defence contracts	Total	Export contracts	Local defence contracts	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Countertrade obligation						
Total countertrade obligation	557	325	882	474	605	1 079
Obligation discharged	(62)	(303)	(365)	(14)	(556)	(570)
Outstanding obligation	495	22	517	460	49	509
To be settled by third party	-	(7)	(7)	-	(47)	(47)
Net obligation of the group	**495**	**15**	**510**	**460**	**2**	**462**
Penalties						
Maximum penalty for non-compliance	42	1	43	39	2	41
Third party obligation	-	-	-	-	(2)	(2)
Net group exposure	**42**	**1**	**43**	**39**	**-**	**39**
Guarantees issued						
Group issued	41	-	41	34	-	34
Third party guarantees	-	-	-	-	3	3
	41	**-**	**41**	**34**	**3**	**37**
Provision to settle obligation (refer note 26)	**41**	**-**	**41**	**33**	**-**	**33**

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
29 NOTES TO THE CASH FLOW STATEMENT				
Reconciliation of profit with cash retained from operations				
Net profit before tax	82	49	146	4
Adjusted for	307	(43)	271	78
Loss/(profit) on disposal of property, plant and equipment (refer note 4) [1]	1	(5)	-	-
Depreciation [1]	97	93	76	71
Amortisation of intangible assets [1]	16	16	16	16
Remeasurement of derivatives	47	35	49	34
Remeasurement of embedded derivatives	(11)	(21)	(10)	(14)
Remeasurement of firm commitments	(11)	(28)	(11)	(28)
Finance costs (refer note 8.1)	143	145	140	147
Finance income (refer note 8.2)	(36)	(61)	(39)	(62)
Dividend received	-	-	(104)	(16)
Decrease in provisions	34	(171)	52	(146)
Impairment reversed on property, plant and equipment [1]	(2)	(24)	(2)	-
Impairment reversed on other intangible assets [1]	(5)	-	(5)	-
Impairment in subsidiaries [1]	-	-	1	65
Share of profit of associated companies (refer note 14)	(72)	(33)	-	-
Fair value adjustment of investment properties (refer note 4)	(33)	(92)	(31)	(92)
Pension holiday	139	103	139	103
Operating profit before changes in net current assets	389	6	417	82
Changes in net current assets	(767)	(197)	(877)	(248)
Increase in inventories	(89)	(54)	(99)	(99)
Increase in receivables	(814)	(293)	(919)	(270)
Decrease/(increase) in reinsurance asset	21	(1)	-	-
Increase in trade and other payables	115	151	141	121
Cash utilised in operations	**(378)**	**(191)**	**(460)**	**(166)**

[1] *Refer note 3*

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
30 CAPITAL COMMITMENTS				
Approved and contracted for	65	57	13	37
Land and buildings	1	14	1	14
Plant and machinery	64	41	12	21
Vehicles and office furniture	-	1	-	1
Computer equipment	-	1	-	1
Approved but not contracted for	19	13	19	13
Land and buildings	12	12	12	12
Plant and machinery	1	1	1	1
Computer equipment	6	-	6	-
	84	**70**	**32**	**50**

There will be no specific financing arrangements made, as these will be financed from available funds and interest bearing borrowings. All expenditure will be incurred in the following financial year.

	Buildings	Plant and machinery	Vehicles and office furniture	Computer equipment	Total
	Rm	Rm	Rm	Rm	Rm
31 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					
GROUP					
2013					
Less than one year	48	1	2	4	55
Between one and five years	189	3	6	6	204
More than five years	-	1	-	-	1
	237	**5**	**8**	**10**	**260**
2012					
Less than one year	58	1	2	3	64
Between one and five years	187	5	6	9	207
More than five years	236	4	-	-	240
	481	**10**	**8**	**12**	**511**
COMPANY					
2013					
Less than one year	45	-	2	3	50
Between one and five years	184	-	6	5	195
More than five years	-	-	-	-	-
	229	**-**	**8**	**8**	**245**
2012					
Less than one year	58	-	2	2	62
Between one and five years	187	-	6	3	196
More than five years	236	-	-	-	236
	481	**-**	**8**	**5**	**494**

32 RELATED PARTIES

Related party transactions are disclosed in terms of the requirements of the relevant standard. Materiality has been considered in the disclosure of these transactions. Amounts smaller than R1m have not been included in the table below:

National Government and state controlled entities

Denel SOC Ltd is fully controlled by its sole Shareholder, the Government represented by the DPE.

The group operates in an economic environment currently dominated by business units directly or indirectly owned by the Government. As a result of the constitutional independence of all three spheres of government in SA, only parties within the national sphere of government will be considered to be related parties.

The list of public 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 35).

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the business unit. All individuals who are members of Exco and the board of directors, as well as the business unit 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 business unit. There were no material transactions other than the directors' emoluments detailed in the *remuneration* section on pages 66 to 67.

Business units within the group

Denel SOC Ltd is the ultimate parent company of the group. The company advanced loans to these entities in the group during the current and previous financial years as part of the financing plan. Other transactions within the group were on commercial terms and conditions.

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 revenue 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.

	National Government Rm	Major national public entities Rm	Between the company and its subsidiaries Rm	Associated companies Rm
32 RELATED PARTIES (CONTINUED)				
The following transactions were carried out with related parties				
GROUP				
2013				
Purchases of goods	11	5		233
Sales of goods	982	-		8
Services rendered	897	3		-
Services received	8	17		-
Lease payments	10	54		-
Lease received	10	-		-
Guarantees issued to related parties	139	-		-
Guarantees issued to third parties on behalf of related parties	-	-		175
Guarantees issued to third parties by related parties	1 850	-		-
Finance income	-	-		6
Dividends received	-	-		16
Outstanding balances payable	39	-		115
Outstanding balances receivable	348	4		62
Advance payments received	44	-		-
Advance payments made	-	1		2
Allowance of doubtful debts	11	-		-
2012				
Purchases of goods	40	17		91
Sales of goods	1 114	1		18
Services rendered	610	2		14
Services received	8	15		175
Lease payments	-	63		-
Lease received	8	-		33
Guarantees issued to related parties	215	-		-
Guarantees issued to third parties on behalf of related parties	-	-		181
Guarantees issued to third parties by related parties	1 850	-		-
Finance income	-	-		7
Dividends received	-	-		16
Outstanding balances payable	121	7		114
Outstanding balances receivable	169	-		106
Advance payments received	360	-		-
Advance payments made	-	-		9

	National Government	Major national public entities	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm
32 RELATED PARTIES (CONTINUED)				
COMPANY				
2013				
Purchases of properties and other assets	-	-	33	-
Purchases of goods	11	5	46	233
Sales of goods	925	-	2	3
Services rendered	783	2	55	-
Services received	7	17	14	-
Lease payments	10	54	-	-
Lease received	10	-	14	-
Guarantees issued to related parties	139	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	175
Guarantees issued to third parties by related parties	1 850	-	-	-
Finance income	-	-	6	6
Finance costs	-	-	1	-
Dividends received	-	-	89	16
Outstanding balances payable	39	-	13	115
Outstanding balances receivable	345	4	10	62
Advance payments received	44	-	-	-
Advance payments made	-	1	10	2
Allowance of doubtful debts	11	-	-	-
2012				
Purchases of goods	40	17	13	91
Sales of goods	996	1	1	14
Services rendered	372	-	59	14
Services received	6	15	14	176
Lease payments	-	63	-	-
Lease received	8	-	14	33
Guarantees issued to related parties	215	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	181
Guarantees issued to third parties by related parties	1 850	-	-	-
Finance income	-	-	5	7
Finance cost	-	-	2	-
Dividends received	-	-	-	16
Outstanding balances payable	3	4	5	114
Outstanding balances receivable	148	-	11	106
Advance payments received	360	-	-	-
Advance payments made	-	1	-	9

Post-employment benefit plans (refer note 35)

		GROUP		COMPANY	
		2013	2012	2013	2012
		Rm	Rm	Rm	Rm
32	RELATED PARTIES (CONTINUED)				
	Compensation paid to key management personnel (including information in the *directors' report*)				
	Short-term employee benefits	41	37	33	30
	Post-employee benefits	3	2	2	2
		44	39	35	32

33 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 consolidated annual financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has delegated its responsibility to the A&R committee, who is responsible for the development and monitoring of the group's risk management policies. The committee meets three times a year and regularly reports to the board on its activities. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The roles and responsibilities of the A&R committee include:

- Approval of all 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
- Recommend to the board for approval of the long-term funding requirements.

The A&R 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 result of which are reported to the A&R committee.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 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 other receivables) and its centralised treasury activities (derivative financial instruments and cash and cash equivalents).

Receivables from customers

The A&R committee of the board has an established policy for the management of credit risk arising on receivables from customers. Under this policy the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Business units are required to review the following before entering into a contract or submitting a proposal to a potential customer:

- The potential customer's compliance with statutory and regulatory conditions;
- The political risk of the potential customer's country;
- The previous business record that the existing customer had with business units within the group (includes but is not limited to payment history);
- The most recent credit rating of the country that the potential customer operates in, from the group's treasury department. Countries are graded by major international banks and these 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 customer.

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 either irrevocable letters of credit, bank guarantees (from first class international banks in acceptable countries) or bonds, promissory notes or credit insurance. In the case of high risk customers who are unable to provide security over future payments, the group may transact with them only on an advanced payment basis.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

Financial instruments managed by the group's treasury function

The A&R committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. Counterparties are assessed based on their official FitchRatings rating. Counterparties are approved by the 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 R2bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1+ rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the GFD.

	2013			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.1 Credit risk (continued)						
Credit exposure and concentration of credit risk						
The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the group's concentration of risk for all non-derivative financial assets						
GROUP						
Trade receivables (refer note 18)	357	750	1 107	240	374	614
Government and related entities	318	174	492	171	90	261
Non-government entities	39	576	615	69	284	353
Other receivables (refer note 18)	60	-	60	27	-	27
Government and related entities	34	-	34	12	-	12
Non-government entities	26	-	26	15	-	15
Interest receivable (non-government)	1	-	1	2	-	2
Loans and receivables (refer note 15 and 33.3)						
Non-government entities	321	-	321	479	-	479
	739	**750**	**1 489**	**748**	**374**	**1 122**
COMPANY						
Trade receivables (refer note 18)	299	741	1 040	214	269	483
Government and related entities	261	173	434	149	60	209
Non-government entities	38	568	606	65	209	274
Other receivables (refer note 18)	49	-	49	25	-	25
Government and related entities	34	-	34	10	-	10
Non-government entities	15	-	15	15	-	15
Interest accrued (non-government) (refer note 18)	1	-	1	2	-	2
Loans and receivables (refer note 15 and 33.3)						
Non-government entities	321	-	321	479	-	479
	670	**741**	**1 411**	**720**	**269**	**989**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Credit exposure and concentrations of credit risk (continued)

Ageing

The ageing of financial assets at the reporting date is included below. The ageing categories include

	2013				2012			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables not impaired	Receivables not impaired	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
Trade receivables (refer note 18)	1 107	63	(63)	1 107	614	68	(68)	614
Not past due	831			831	480			480
Not past due, but impaired		-	-	-		7	(7)	-
Past due								
Less than 30 days	145	-	-	145	46	-	-	46
30 to 60 days	26	-	-	26	26	-	-	26
61 to 90 days	9	-	-	9	17	4	(4)	17
More than 90 days	96	63	(63)	96	45	57	(57)	45
Other receivables (refer note 18)	60	-	-	60	27	-	-	27
Not past due, not impaired	45	-	-	45	27	-	-	27
Past due								
Less than 30 days	11	-	-	11	-	-	-	-
61 to 90 days	4	-	-	4	-	-	-	-
Interest accrued (refer note 18)								
Not past due, not impaired	1	-	-	1	2	-	-	2
Loans and other receivables (refer note 15 and 33.3)	321	-	-	321	479	-	-	479
Not past due, not impaired								
Current portion	182	-	-	182	193	-	-	193
Non-current portion	139	-	-	139	286	-	-	286
	1 489	**63**	**(63)**	**1 489**	**1 122**	**68**	**(68)**	**1 122**

	2013				2012			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables not impaired	Receivables not impaired	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)								
33.1 Credit risk (continued)								
COMPANY								
Trade receivables (refer note 18)	1 040	63	(63)	1 040	483	68	(68)	483
Not past due	791	-	-	791	381	-	-	381
Not past due, but impaired		-	-	-		7	(7)	-
Past due								
Less than 30 days	121	-	-	121	35	-	-	35
30 to 60 days	22	-	-	22	18	-	-	18
61 to 90 days	9	-	-	9	17	4	(4)	17
More than 90 days	97	63	(63)	97	32	57	(57)	32
Other receivables (refer note 18)	49	-	-	49	25	-	-	25
Not past due, not impaired	37	-	-	37	25	-	-	25
Past due								
Less than 30 days	8	-	-	8	-	-	-	-
61 to 90 days	4	-	-	4	-	-	-	-
Interest accrued (refer note 18)								
Not past due, not impaired	1	-	-	1	2	-	-	2
Loans and other receivables (refer note 15 and 33.3)	321	-	-	321	479	-	-	479
Not past due, not impaired								
Current portion	182	-	-	182	193	-	-	193
Non-current portion	139	-	-	139	286	-	-	286
	1 411	**63**	**(63)**	**1 411**	**989**	**68**	**(68)**	**989**

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
Security held over non-derivative financial assets				
Irrevocable Letters of Credit confirmed by foreign banks	155	238	155	238
Unconfirmed Letters of Credit	-	64	-	64
	155	**302**	**155**	**302**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Liquidity risk

A centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. Updated cash flow information and projections of future cash flows are received from business units on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. The group received government guarantees of R1.85bn to raise borrowings. These guarantees expire on 30 September 2017.

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

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
Undrawn credit facilities	225	390	225	390

The credit banking facilities are unsecured, bear interest at a rate linked to prime 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 NON-DISCOUNTED CASH FLOWS				
	Carrying amount	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years
	Rm	Rm	Rm	Rm	Rm
GROUP					
2013					
Interest bearing loans and borrowings (refer note 24)	1 867	2 199	468	84	1 647
Non-interest bearing loans and borrowings (refer note 24)	6	-	-	-	-
Loans from associated companies (refer note 24)	40	40	40	-	-
Trade and other payables (refer note 27)	837	846	666	175	5
Derivative financial liabilities (refer note 20.2)	72	72	8	58	6
	2 822	**3 157**	**1 182**	**317**	**1 658**
2012					
Interest bearing loans and borrowings (refer note 24)	1 845	1 872	712	1 160	-
Non-interest bearing loans and borrowings (refer note 24)	101	101	-	-	101
Loans from associated companies (refer note 24)	20	20	20	-	-
Trade and other payables (refer note 27)	801	801	691	110	-
Derivative financial liabilities (refer note 20.2)	26	26	2	10	14
	2 793	**2 820**	**1 425**	**1 280**	**115**

	Carrying amount	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years
		CONTRACTUAL NON-DISCOUNTED CASH FLOWS			
	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)					
33.2 Liquidity risk (continued)					
COMPANY					
2013					
Interest bearing loans and borrowings (refer note 24)	1 848	2 185	468	83	1 634
Loans from associated companies (refer note 24)	40	40	40	-	-
Trade and other payables (refer note 27)	776	783	669	109	5
Derivative financial liabilities (refer note 20.2)	72	72	8	58	6
	2 736	**3 080**	**1 185**	**250**	**1 645**
2012					
Interest bearing loans and borrowings (refer note 24)	1 845	1 872	712	1 160	-
Loans from associated companies (refer note 24)	20	20	20	-	-
Trade and other payables (refer note 27)	715	715	629	86	-
Derivative financial liabilities (refer note 20.2)	25	26	2	10	14
	2 605	**2 633**	**1 363**	**1 256**	**14**

33.3 Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect the group's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Business units

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

Treasury

Treasury is responsible for reporting to the A&R committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the GFD and Exco 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Market risk

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 A&R committee determines the interest rate risk strategy based on economic expectations and reports received from treasury. Treasury monitors interest rates on a daily basis and the policy is to maintain short-term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

At the reporting date the interest rate profile of the group's interest bearing financial instruments were as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Rm	Rm	Rm	Rm
Fixed rate instruments				
Commercial paper (refer note 24.3)	450	1 845	450	1 845
Loans and borrowings	584	-	584	-
Variable rate instruments				
Cash and short-term deposits (refer note 21.1)	1 257	1 074	1 177	1 009
Cash held on behalf of associated companies (refer note 21.2 and 24)	40	20	40	20
Loans and other receivables (refer note 15)	321	479	321	479
Loans and borrowings	823	-	814	-
Bank overdraft (refer note 24)	16	-	-	-

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the reporting date would have increased/decreased profit or loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit or loss.

	GROUP 2013 Rm	GROUP 2012 Rm	COMPANY 2013 Rm	COMPANY 2012 Rm
Cash and cash equivalents				
Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.	8	8	8	8

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Market risk (continued)

Currency risk

Currency risk arises from the movement in foreign exchange rates. The group's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. Foreign exchange embedded derivatives are recognised when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce. Foreign exchange embedded derivatives are not recognised for contracts denominated in a common currency. No speculating in foreign currency is allowed within the group.

Treasury is responsible for the hedging of foreign currency exposure in terms of information received from the business units. Currency exposures are hedged based on an 18-month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying foreign exchange policy. The hedging instrument is entered into once the exposure is firm and ascertainable, i.e. there is an underlying contract in place. Currency exposures are reported to the GFD on a weekly basis and to the Exco 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 naturally hedged by keeping funds in the CFC accounts.

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

	2013		2012	
	USD	EUR	USD	EUR
	Million	Million	Million	Million
GROUP				
Assets	74	44	95	57
Trade receivables	39	44	21	18
CFC accounts	1	-	-	39
Embedded derivatives (export revenue)	2	-	8	-
Firm commitment (export revenue)	32	-	66	-
Liabilities	(6)	(9)	(1)	-
Trade payables	(6)	(9)	(1)	-
Firm commitment (import)	-	-	-	-
Gross balance sheet exposure	68	35	94	57
Forecast transactions: revenue	34	5	19	17
Forecast transactions: purchases	-	(6)	(1)	(6)
Gross balance sheet exposure	102	34	112	68
Forward exchange contracts				
Export revenue	(34)	(5)	(24)	(17)
Import	-	6	1	6
Foreign currency options (zero cost collars)				
Export revenue	-	-	(49)	(1)
Net exposure	**68**	**35**	**40**	**56**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Market risk (continued)

	2013		2012	
	USD	EUR	USD	EUR
	Million	Million	Million	Million
COMPANY				
Assets	111	37	82	57
Trade receivables	38	33	11	18
CFC accounts	1	-	-	39
Embedded derivatives (export revenue)	2	-	5	-
Firm commitment (export revenue)	70	4	66	-
Liabilities	(6)	(9)	(1)	-
Trade payables	(6)	(9)	(1)	-
Firm commitment (import)	-	-	-	-
Gross balance sheet exposure	105	28	81	57
Forecast transactions: revenue	34	5	19	17
Forecast transactions: purchases	-	(6)	(1)	(6)
Gross balance sheet exposure	139	27	99	68
Forward exchange contracts				
Export revenue	(34)	(5)	(23)	(17)
Import	-	6	1	6
Foreign currency options (zero cost collars)				
Export revenue	-	-	(49)	(1)
Net exposure	**105**	**28**	**28**	**56**
A 5% strengthening of the Rand against the following currencies at 31 March would have increased/(decreased) profit or loss by the following amounts				
Group	**17**	**21**	**16**	**29**
Company	**17**	**14**	**11**	**29**

A 5% 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.

	2013			2012		
	Foreign currency notional amount	Local currency amount	Fair value	Foreign currency notional amount	Local currency amount	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.3 Market risk (continued)						
Foreign currency derivatives						
The fair value of foreign currency derivatives are disclosed in note 20						
The following foreign exchange contracts existed at 31 March						
Purchase contracts						
USD	-	3	5	1	9	9
EUR	6	72	75	6	63	63
GBP	-	2	2	-	-	-
SEK	-	-	-	2	2	2
CHF	-	2	2	1	13	13
Other		-	-		1	1
		79	**84**		**88**	**88**
Revenue contracts						
USD	34	324	434	24	184	185
EUR	5	63	95	17	185	186
SGD	-	2	4	-	-	-
CHF	1	5	11	-	-	-
		394	**544**		**369**	**371**
The following foreign exchange options existed at 31 March						
Revenue contracts						
USD	39	355	329	49	378	361
EUR	4	47	48	1	6	6
		402	**377**		**384**	**367**

	FOREIGN CURRENCY NOTIONAL AMOUNT							
	2013				2012			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3-5 Years	Total	1 Year	2 Years	3-5 Years	Total
33 FINANCIAL RISK MANAGEMENT (CONTINUED)								
33.3 Market risk (continued)								
Maturity table								
Foreign exchange contracts								
Purchase contracts								
USD	-	-	-	-	1	-	-	1
EUR	6	-	-	6	6	-	-	6
SEK	-	-	-	-	2	-	-	2
CHF	-	-	-	-	1	-	-	1
Revenue contracts								
USD	25	10	-	35	24	-	-	24
EUR	5	-	-	5	-	17	-	17
CHF	1	-	-	1	-	-	-	-
Foreign exchange options								
Revenue contracts								
USD	27	12	-	39	15	26	8	49
EUR	4	-	-	4	1	-	-	1

Foreign exchange embedded derivatives and firm commitment

Contracts (revenue or purchase) denominated in a foreign currency, which is neither a common currency, the measurement currency of any party to the contract, nor the currency in which the commodity is routinely traded in international commerce, 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.

Denel views the USD, GBP and EUR as common currencies. The embedded derivatives recognised relate to balances of existing contracts at the date of the change of accounting policy. The changed accounting policy is applied prospectively from the said date in line with the transition requirements of IFRIC 9 and IAS 8.

	2013			2012		
	Foreign currency notional amount	Local currency amount	Fair value	Foreign currency notional amount	Local currency amount	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.3 Market risk (continued)						
Foreign currencies						
Export transactions						
Embedded derivatives						
USD	2	**26**	**23**	**8**	**64**	**49**
Firm commitment relating to foreign exchange contracts						
USD	30	281	290	17	136	134
CHF	-	3	3	-	-	-
		284	**293**		**136**	**134**
Firm commitment relating to foreign exchange options						
USD	39	355	329	49	378	361
EUR	4	12	48	-	2	2
		367	**377**		**380**	**363**
Import transactions						
Firm commitment relating to foreign exchange contracts						
GBP	-	1	1	-	-	-
EUR	-	1	1	-	1	1
		2	**2**		**1**	**1**

FOREIGN CURRENCY NOTIONAL AMOUNT

	2013				2012			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3-5 Years	Total	1 Year	2 Years	3-5 Years	Total
33 FINANCIAL RISK MANAGEMENT (CONTINUED)								
33.3 Market risk (continued)								
Maturity table								
Export transactions								
Embedded derivatives								
USD	2	-	-	2	5	3	-	8
Firm commitment relating to foreign exchange contracts								
USD	31	-	-	31	17	-	-	17
Firm commitment relating to foreign exchange options								
USD	27	12	-	39	15	26	8	49
EUR	4	-	-	4	1	-	-	1

Import transactions

Firm commitment relating to foreign exchange contracts. The maturity of all import transaction 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.

	2013			2012		
	Units	Local currency amount	Fair value	Units	Local currency amount	Fair value
	ton	Rm	Rm	ton	Rm	Rm
Commodity swap derivatives						
The following commodity swap contracts existed at 31 March						
Copper swaps	-	-	-	24	2	2
Zinc swaps	-	-	-	148	2	2
		-	-		4	4

	2013				2012			
	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	-	-	-	-	24	-	-	24
Zinc swaps	-	-	-	-	148	-	-	148

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Fair value of financial assets and liabilities

The categorisation of each class of financial asset and liability, including their fair values, are included below

	Loans and receivables Rm	Liabilities at amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
GROUP					
2013					
Financial assets					
Loans and receivables (refer note 15)	259			259	259
Associated companies: Loans receivable (refer note 15)	62			62	62
Trade and other receivables (refer note 18)	1 168			1 168	1 168
Other financial assets (refer note 20.1)			42	42	42
Cash and cash equivalents (refer note 21.1)	1 257			1 257	1 257
Cash held on behalf of associated companies (refer note 21.2)	40			40	40
Financial liabilities					
Interest bearing borrowings (refer note 24)		(1 867)		(1 867)	(1 867)
Non-interest bearing borrowings (refer note 24)		(6)		(6)	(6)
Associated companies: Loans (refer note 24)		(40)		(40)	(40)
Trade and other payables (refer note 27)		(837)		(837)	(837)
Other financial liabilities (refer note 20.2)			(78)	(78)	(78)
	2 786	**(2 750)**	**(36)**	**-**	**-**
2012					
Financial assets					
Loans and receivables (refer note 15)	377			377	377
Associated companies: Loans receivable (refer note 15)	102			102	102
Trade and other receivables (refer note 18)	643			643	643
Other financial assets (refer note 20.1)			38	38	38
Cash and cash equivalents (refer note 21.1)	1 074			1 074	1 074
Cash held on behalf of associated companies (refer note 21.2)	20			20	20
Financial liabilities					
Interest bearing borrowings (refer note 24)		(1 845)		(1 845)	(1 860)
Non-interest bearing borrowings (refer note 24)		(101)		(101)	(101)
Associated companies: Loans (refer note 24)		(20)		(20)	(20)
Trade and other payables (refer note 27)		(801)		(801)	(801)
Other financial liabilities (refer note 20.2)			(48)	(48)	(48)
	2 216	**(2 767)**	**(10)**	**(561)**	**(576)**

	Loans and receivables	Liabilities at amortised cost	Held for trading	Total carrying value	Fair value
	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)					
33.4 Fair value of financial assets and liabilities (continued)					
COMPANY					
2013					
Financial assets					
Loans and receivables (refer note 15)	259			259	259
Associated companies: Loans receivable (refer note 15)	62			62	62
Trade and other receivables (refer note 18)	1 100			1 100	1 100
Other financial assets (refer note 20.1)			42	42	42
Cash and cash equivalents (refer note 21.1)	1 177			1 177	1 177
Cash held on behalf of associated companies (refer note 21.2)	40			40	40
Financial liabilities					
Interest bearing borrowings (refer note 24)		(1 848)		(1 848)	(1 848)
Associated companies: Loans (refer note 24)		(40)		(40)	(40)
Trade and other payables (refer note 27)		(776)		(776)	(776)
Subsidiaries: Borrowings		(452)		(452)	(452)
Other financial liabilities (refer note 20.2)			(78)	(78)	(78)
	2 638	**(3 116)**	**(36)**	**(514)**	**(514)**
2012					
Financial assets					
Loans and receivables (refer note 15)	377			377	377
Associated companies: Loans receivable (refer note 15)	102			102	102
Trade and other receivables (refer note 18)	521			521	521
Other financial assets (refer note 20.1)			38	38	38
Cash and cash equivalents (refer note 21.1)	1 009			1 009	1 009
Cash held on behalf of associated companies (refer note 21.2)	20			20	20
Financial liabilities					
Interest bearing borrowings (refer note 24)		(1 845)		(1 845)	(1 860)
Associated companies: Loans (refer note 24)		(20)		(20)	(20)
Trade and other payables (refer note 27)		(715)		(715)	(715)
Subsidiaries: Borrowings		(58)		(58)	(58)
Other financial liabilities (refer note 20.2)			(46)	(46)	(46)
	2 029	**(2 638)**	**(8)**	**(617)**	**(632)**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Fair value of financial assets and liabilities (continued)

Determination of fair values

Non-derivative financial instruments

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest bearing borrowings. Where there is no quoted market price, a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using 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 hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 20 and fall within level 2 of the hierarchy. During the year there were no transfers between any of the levels of fair value measurements.

34 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 R4.2bn. The Shareholder has also provided a government guarantee totalling R1.85bn to enable the group to raise borrowings.

The group further strives to negotiate advance payments from customers in business transactions that require high investment in working capital over a long delivery lead times.

There were no changes in the group's approach to capital management during the year.

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

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

35 POST-RETIREMENT OBLIGATIONS

The group offers pension and post-retirement benefits through a defined contribution plan and a defined benefit plan.

35.1 Denel Medical Benefit Trust

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

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2013 indicated a surplus of R409m (2011/12: R302m).

35 POST-RETIREMENT OBLIGATIONS (CONTINUED)

35.1 Denel Medical Benefit Trust (Continued)

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 statement of financial position and no plan assets are recognised due to statutory requirements.

Due to the current surplus of this fund, the group only contributes to the fund when a qualifying member goes on early retirement and it is, therefore, unable to determine the contribution for 2014.

During the year a further 62 members (2011/12: 245 members) accepted the next phase buy-out offer and were settled. The group is exploring further options for the remaining members to limit the financial risk to the group. Refer to the *directors' report* for details.

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

	2013	2012
	Rm	Rm
Change in defined benefit funded obligation		
Present value of funded obligations at 1 April	755	674
Service cost benefits earned during the year	8	8
Interest cost on projected benefit obligation	63	61
Actuarial losses	92	113
Benefits paid	(31)	(30)
Liability buy-out	(128)	(71)
Present value of funded obligations at 31 March	**759**	**755**
Change in plan assets		
Fair value of plan assets at 1 April	1 057	1 151
Expected return on plan assets	89	103
Actuarial losses/(gains)	178	(54)
Employer and member contributions	1	1
Benefits paid	(31)	(30)
Liability buy-out	(126)	(114)
Fair value of plan assets at 31 March	**1 168**	**1 057**
Fund excess	409	302
Excess not recognised	(409)	(302)
Unrecognised actuarial gains	**-**	**-**
Net benefit expenses		
Service cost	8	8
Interest cost	63	61
Expected return on plan assets	(89)	(103)
Net actuarial loss recognised during the year	92	113
Income	**74**	**79**
	%	%
The principal actuarial assumptions used for accounting purposes were		
Expected return on plan assets	10.1	9.9
Expected medical inflation	8.1	7.9

The DMBT's expected long-term investment return was based on the yields of the R186 SA Government bond plus a risk premium of 1.25% per annum.

35 POST-RETIREMENT OBLIGATIONS (CONTINUED)

35.1 Denel Medical Benefit Trust (Continued)

	2013 Number	2012 Number
The beneficiary members from the funds are as follows		
Active members	365	374
Retired members	1 141	1 720
The beneficiary members who accepted the buy-out offer are as follows		
Active members	62	245
Retired members	-	-

	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm
Amounts for the current and previous four periods are as follows					
Defined benefit obligation	(759)	(755)	(674)	(681)	(1 323)
Plan assets	1 168	1 057	1 151	1 248	1 768
Surplus	409	302	477	567	445
Experience adjustments on plan liabilities	(25)	(25)	(4)	(33)	10

	2013		2012	
	Increase	Decrease	Increase	Decrease
	Rm	Rm	Rm	Rm
A 1% change in assumed healthcare cost trend rates would have the following effects on defined benefit obligation	**(60)**	**71**	**(197)**	**166**

35.2 Denel Retirement Fund

The group has established a retirement fund scheme that covers all qualifying employees. This fund is a defined contribution plan and is governed by the Pension Funds Act of 1956 (Act no. 24 of 1956). The contributions are charged to the income statement as incurred.

36 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 as reflected in the *group overview* section on page 9. 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. Segment results include transfers between operating segments and these transfers are eliminated on consolidation.

Business segments

The group comprises the following main operating segments:

- Aerostructures: Denel Aerostructures (SOC) Ltd;
- Aerospace systems: Denel Dynamics and Overberg Test Range;
- Aviation: Denel Aviation;
- Land systems: Denel Land Systems and LMT Holdings SOC Ltd;
- Munitions: PMP;
- Non-core: Property business unit and property subsidiaries; and
- Corporate services: corporate activities mainly consist of corporate office and treasury functions, and are not directly related to the business segments identified. This segment also includes segments that are not separated due to their immateriality, e.g. Densecure SOC Ltd.

The results of business units with revenue less than 10% of the group revenue are aggregate within an operating segment which products and services closest relates to that of the specific business unit.

More detail on the business units is stated in the *operational overview* section on pages 44 to 50.

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36 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
2013								
Segment revenue	262	1 084	1 048	988	530	291	(285)	3 918
Revenue to external customers	253	1 054	1 027	947	524	113		3 918
Intergroup revenue	9	30	21	41	6	178	(285)	-
Segment result	(46)	24	39	57	-	141	(98)	117
Net finance costs								(107)
Share of profit of associated companies								72
Income tax expense								(11)
Profit for the year								71
Segment assets	798	1 425	728	1 339	604	5 934	(4 067)	6 761
Deferred tax assets								17
Total assets								6 778
Segment liabilities	436	1 212	701	1 145	93	3 507	(1 789)	5 305
Deferred tax liabilities								1
Total liabilities								5 306
Cash flows from								
Operating activities	(71)	(32)	(39)	(69)	31	223	(194)	(151)
Investing activities	(11)	(53)	(51)	(11)	(18)	(741)	718	(167)
Financing activities	534	(27)	19	(212)	-	456	(249)	521
Capital expenditure	20	21	53	43	18	827	(836)	146
Impairment losses	-	-	12	17	17	2	27	75
Impairment losses reversed	(49)	(3)	(4)	(3)	(28)	(43)	-	(130)
Depreciation/amortisation i.r.o segment assets	15	38	9	17	14	20	-	113
Revenue from SA National Government	57	567	1 003	87	157	18	-	1 889
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	32	-	32
Loss/(Profit) on disposal of property, plant and equipment	1	-	-	-	-	-	-	1

36 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
2012								
Segment revenue	260	894	1 047	847	499	319	(298)	3 568
Revenue to external customers	247	846	1 018	847	474	136		3 568
Intergroup revenue	13	48	29	-	25	183	(298)	-
Segment result	(74)	45	60	44	8	30	(13)	100
Net finance costs								(84)
Share of profit of associated companies								33
Income tax expense								(8)
Profit for the year								41
Segment assets	333	1 362	514	1 231	602	5 503	(3 914)	5 631
Deferred tax assets								11
Total assets								5 642
Segment liabilities	820	1 187	493	1 077	92	3 827	(2 556)	4 940
Deferred tax liabilities								7
Total liabilities								4 947
Cash flows from								
Operating activities	(66)	417	(121)	90	(9)	151	(102)	360
Investing activities	1	(103)	(4)	(20)	(15)	(240)	231	(150)
Financing activities	65	10	63	227	-	525	(960)	(70)
Capital expenditure	12	38	4	20	14	15	-	103
Impairment losses	-	-	40	2	29	243	(233)	81
Impairment losses reversed	(75)	(9)	-	(2)	(22)	(171)	167	(112)
Depreciation/amortisation i.r.o segment assets	15	37	9	13	16	19	-	109
Revenue from SA National Government	119	446	773	227	152	15	-	1 732
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	92	-	92
(Profit)/Loss on disposal of property, plant and equipment	(5)	-	-	-	-	-	-	(5)

	2013				2012			
	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/(by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/(by) Denel SOC Ltd	Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%
37 SUBSIDIARIES AND ASSOCIATED COMPANIES								
The following unlisted companies are subsidiaries or associated companies of Denel SOC Ltd and its subsidiaries								
SHAREHOLDING BY HOLDING COMPANY								
Denel Personnel Solutions SOC Ltd	-	-	-	-	-	-	(57)	100.0
Denel Aerostructures SOC Ltd	1 689	1 689	(116)	100.0	789	789	601	100.0
Densecure SOC Ltd	8	8	-	100.0	8	8	-	-
LMT Holdings SOC Ltd (RF) [1]	28	13	-	51.0	-	-	-	100.0
Mechem SOC Ltd	-	-	-	-	63	63	4	100.0
Total investment		1 710	(116)			860	548	
Aggregated amounts less than R0.5m [2]		-	-			-	-	
Less: Accumulated impairment of investment		(1 055)	(336)			(789)	(601)	
Net investment of Denel SOC Ltd (refer note 13)		**655**	**(452)**			**71**	**(53)**	
SHAREHOLDING BY SUBSIDIARY								
LMT Products (Pty) Ltd	-	-	-	45.9	-	-	-	-
LMT Engineering (Pty) Ltd	1	4	-	51.0	-	-	-	-
LMT Properties (Pty) Ltd	-	-	-	38.8	-	-	-	-
ASSOCIATED COMPANIES								
Turbomeca Africa (Pty) Ltd		49	1	49.0		49	-	49.0
Cassidian Optronics (Pty) Ltd		57	1	30.0		57	-	30.0
Rheinmetall Denel Munition (Pty) Ltd		371	22	49.0		371	102	49.0
Net investment of Denel SOC Ltd (refer note 14)		**477**	**24**			**477**	**102**	

	2013	2012
	Rm	Rm
Aggregated loss of subsidiaries	**(48)**	**(47)**

[1] *This includes R13m preference shares.*

[2] *Amounts smaller than R0.5m due to rounding are not reflected against the entities but in aggregate on this page.*


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INFORMATION SERVICE

GLOSSARY

ACRONYM	FULL DESCRIPTION
AAD	Africa Aerospace and Defence
A&R	Audit and risk
AGM	Annual General Meeting
AMD	South African Aerospace, Maritime and Defence Industries Association
AMG	Atlas Manpower Group
BAC	Battle area clearance
B-BBEE	Broad-based black economic empowerment
Board	Denel board of directors
CCM	Continuous control monitoring
CEO	Chief executive officer
CFC	Controlled foreign currency
CFO	Chief financial officer
CNES	Centre National d'Etudes Spatiales
CPP	Commercial Paper Program
CoGP	Code of Good Practice
Companies Act	South African Companies Act, no. 71 of 2008
COMPASS	Community Provision and Social Services
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
DAe	Denel Aerostructures SOC Ltd
DAv	Denel Aviation
DENIPROP	Denel Industrial Properties
DenRet	Denel retirement fund
Dept	Department
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DoD&MV	Department of Defence and Military Veterans
DPE	Department of Public Enterprises
DPS	Denel Personnel Solutions SOC Ltd
DST	Department of Science and Technology
DTA	Denel Technical Academy
dti	Department of Trade and Industry

ACRONYM	FULL DESCRIPTION
Dynamics/DD	Denel Dynamics
EAL	Engineering Academy of Learning
EBIT	Earnings before interest and taxation
ECS	Energy Conservation Scheme
ECSA	Engineering Council of South Africa
EE	Employement equity
EOD	Explosive ordnance disposal
ERP	Enterprise resource planning
ERW	Explosive remnants of war
EUR	Euro
EXCO	Group executive committee
FET	Further education and training
GBP	British Pound Sterling
GCEO	Group chief executive officer
GFD	Group financial director
GHG	Greenhouse gas
Government	South African Government
GRI	Global Reporting Initiative
IAS	International accounting standards
IBSA	India-Brazil-South Africa Dialogue Forum
ICV	Infantry combat vehicle(s)
IDEX	UAE Defence Exhibition
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Inc.	Incorporated
IPAP2	Industrial policy action plan
IPLS	Ingwe Portable Launch System
ISO	International Standards Organisation
JCE	Jointly controlled entity
KPI	Key performance indicator
LMT	LMT Holdings SOC Ltd
LOA	Letter of Agreement
LTIFR	Lost Time Injury Frequency Rate
Mechem	Mechem SOC Ltd
MEDDS	Mechem explosives and drug detection system
MoD	Ministry of Defence
MoU	Memorandum of Understanding
MRO	Maintenance, repair and overhaul
NCACA	National Conventional Arms Control Act

ACRONYM	FULL DESCRIPTION
NCACC	National Conventional Arms Control Committee
NGP	New Growth Path
NT	National Treasury
NUMSA	National Union of Metal Workers of South Africa
OCI	Other comprehensive income
OEM	Original equipment manufacturer
OHS	Occupational Health and Safety
OHSAS	Occupational Health Safety Assessment Series
OPEX	Operating expenditure
OTR	Denel Overberg Test Range
(Pty) Ltd	(Proprietary) Limited
PAA	Public Audit Act
PFMA	Public Finance Management Act, no. 1 of 1999
PMP	Pretoria Metal Pressings
POLRisk	Polish Risk Management Association
PPPFA	Preferential Procurement Policy Framework Act
PR&T	Personnel, remuneration and transformation
R&D	Research and development
Rand	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
RSA	Republic of South Africa
RSS	Ribs, spars and sword
RUSRisk	Russian Risk Management Association
SA	South Africa(n)
SAAF	South African Air Force
SACAA	South African Civil Aviation Authority
SACCI	South African Chamber of Commerce and Industry
SANDF	South African National Defence Force
SAPS	South African Police Services
SARS	South African Revenue Services
SAWomEng	South Africa Women in Engineering
SED	Socio-economic development
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

ACRONYM	FULL DESCRIPTION
SMME	Small, medium and micro enterprises
SOC	State-owned company
Shareholder	South African Government
TMA	Turbomeca Africa (Pty) Ltd
TS	Top shells
UAE	United Arab Emirates
UASA	United Association of South Africa
UAVS	Unmanned aerial vehicle systems
UN	United Nations
UP	University of Pretoria
US	United States
USA	United States of America
USD	United States Dollar
VV02	VEGA/Demosat
WFF	Wing-to-fuselage-fairing

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Registration number 1992/001337/30

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