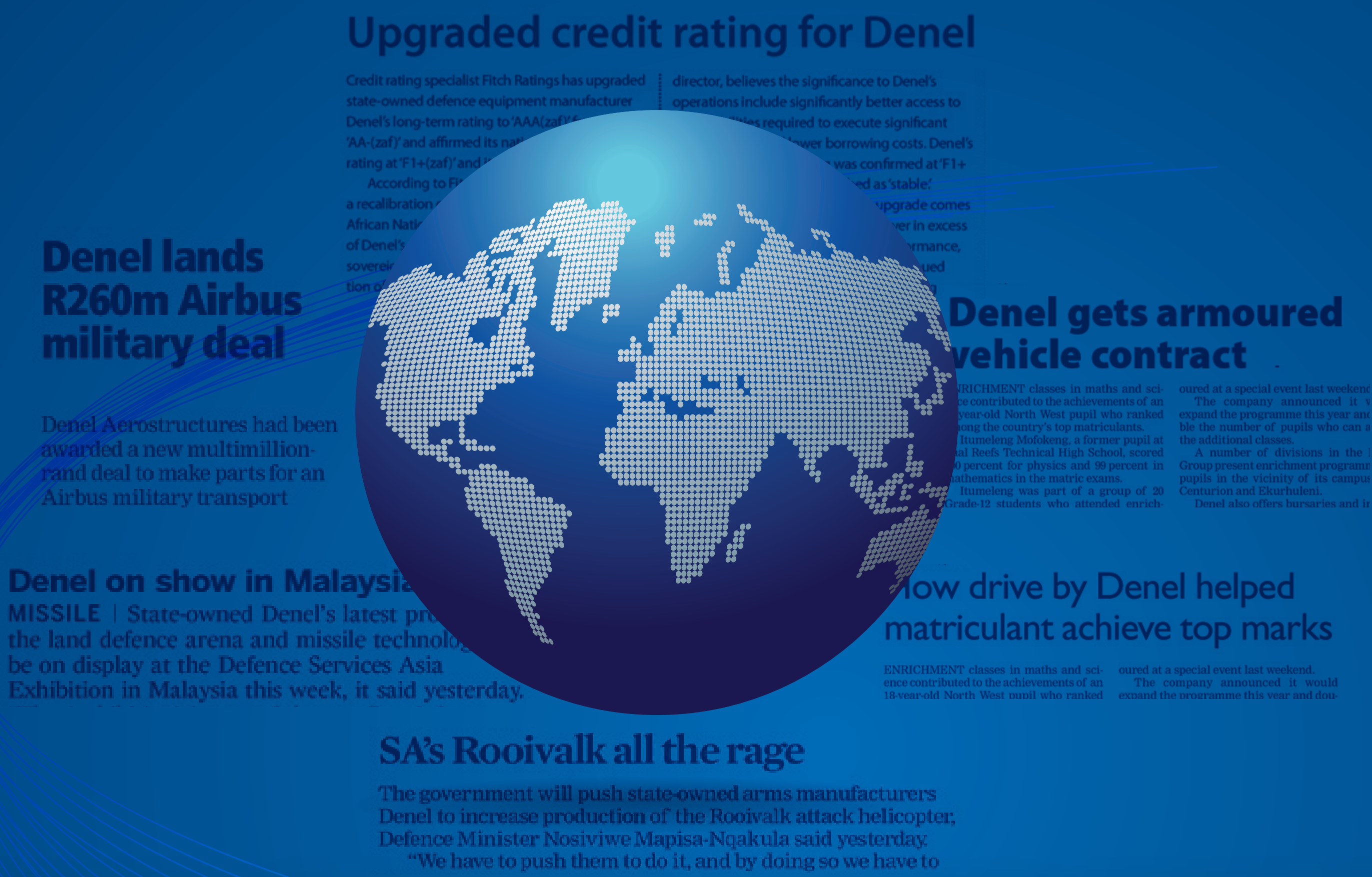
INTEGRATED REPORT
TWENTY 13/14






DENEL

RELIABLE DEFENCE SECURITY AND TECHNOLOGY SOLUTIONS PARTNER

This report takes cognisance of the integrated reporting requirements of the King III Report on Corporate Governance and the International Integrated Reporting Framework. The sustainability information included throughout the report 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 3.1. The GRI content index is provided on pages 194 to 197, 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 external auditors were engaged to assure financial information, whilst most of the non-financial information presented in the integrated report was assured by a number of service providers through various processes i.e. B-BBEE verification, board evaluation, ISO certification, organisational climate assessment, etc.

This integrated report is available on Denel's website (www.denel.co.za).

In line with Denel's inclusive approach, corporate contact details are provided on page 200.

Key acronyms used in this report are listed below. A complete list of abbreviations and acronyms is provided on pages 198 to 199.

ACRONYM	FULL DESCRIPTION	ACRONYM	FULL DESCRIPTION
ACI	African, Coloured and Indian	**MoU**	Memorandum of Understanding
AGM	Annual general meeting	**MRO**	Maintenance, repair and overhaul
B-BBEE	Broad-based black economic empowerment	**OEM**	Original equipment manufacturer
DAe	Denel Aerostructures SOC Ltd	**OTR**	Denel Overberg Test Range
DAv	Denel Aviation	**PMP**	Pretoria Metal Pressings
DD	Denel Dynamics	**R&D**	Research and development
DLS	Denel Land Systems	**RDM**	Rheinmetall Denel Munition (Pty) Ltd
DoD	Department of Defence	**SA**	South Africa(n)
DoD&MV	Department of Defence and Military Veterans	**SAAF**	South African Air Force
DPE	Department of Public Enterprises	**SANDF**	South African National Defence Force
DTA	Denel Technical Academy	**SANSA**	South African National Space Agency
dti	Department of Trade and Industry	**SED**	Socio-economic development
EBIT	Earnings before interest and taxation	**SOC**	State-owned company
EE	Employment equity	**SOE**	State-owned entity
Government	South African Government	**Tawazun Dynamics**	Tawazun Dynamics LLC
HR	Human resources	**TMA**	Turbomeca Africa (Pty) Ltd
ISO	International Standards Organisation	**UAV**	Unmanned aerial vehicle
LMT	LMT Holdings SOC Ltd (RF)	**UAVS**	Unmanned aerial vehicle system
MEDDS	Mechem explosives and drug detection system		

ABOUT THIS REPORT

This integrated report presents a transparent, comprehensive and comparable view of financial, operating, social and sustainability performance of Denel SOC Ltd for the year ended 31 March 2014 to a broad range of stakeholders. This report outlines the group's outlook and further aims to highlight opportunities and challenges faced by the group, as well as planned actions to address the same. The planned actions take into account business priorities, risks and recommendations made by stakeholders.

Denel is committed to sustainable development, and responds to the economic, social and natural environmental imperatives where it conducts business. 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. Denel actively identifies material matters through engagements with both internal and external stakeholders, and considers the group's risk management processes and feedback from sustainability indices. This process ensures that the group's corporate responsibility programmes remain relevant and meaningful to the group's stakeholders, and reflects the changing landscape of corporate responsibility.

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 matters of the group. The group's most significant and material issues are discussed throughout the integrated report, as well as in the directors' report on pages 105 to 107. Non-financial information presented in the report relates to Denel, its operating divisions and subsidiaries. Financial information includes information regarding associated companies.

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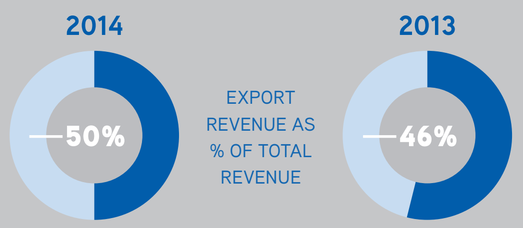
Seeker 400

GROUP OVERVIEW

PART ONE

THE ROLE WE PLAY



	2014 Rm	2013 Rm	%
Revenue	4 588	3 918	17
Export revenue	2 275	1 783	28
EBIT	282	189	49

6 555 EMPLOYEES

2014	2013	2012
3	3	3

B-BBEE LEVEL STATUS

The Denel group consists of a number of business units and its organisational structure is provided on page 10.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

Denel's product offering includes combat turrets, artillery and vehicle systems, missiles, command and control, MRO of aircraft, avionics upgrades, testing of airborne systems, munitions, design and manufacturing of aerostructure components, satellite development, as well as humanitarian services including demining. These solutions are designed to meet unique user requirements and provide full lifecycle support, which reduce the cost of ownership.

Denel plays a significant role in industrial development through its active R&D programmes, manufacturing and maintenance activities, 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 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, mining drill bits and commercial brass strip. Further details of Denel's activities, products and services are provided in the performance review section on pages 31 to 43.

Denel plays a significant role in industrial development through its active R&D programmes, manufacturing and maintenance activities, well-defined infrastructure and strong human capital base.

CONTRIBUTION TO NATIONAL INTERESTS

Denel contributes towards SA's national developmental priorities, such as skills and supplier development, growing the strategic technology base and creating skilled jobs that bring downstream benefits to the broader society. Specific focus areas in support of national objectives are:

- Industrial development strategy – Industrial Policy Action Plan (IPAP) and Defence Review:
  - R&D investment of R507m during the year;
  - Contribution through programmes like Rooivalk in peacekeeping initiatives as per recent media reports;
  - Rejuvenating our space capability through the newly-formed Spaceteq; and
  - Advanced high technology manufacturing, for example the contribution to the success of the A400M, the world's most advanced military airlifter, as mentioned by Airbus Defence and Space during its media conferences in Seville.
- Commerce and industry – defence and civilian application of Denel products, such as mining drill bits, UAVs for surveillance, etc;
- Humanitarian involvement – building on an exceptional track record as a world leader in humanitarian demining and a valued partner in United Nations (UN) efforts to combat the scourge of landmines;
- National security and peacekeeping:
  - Denel supplies 50% of its annual activities to the local defence and security cluster; and
  - Contributes to SA's strategic military independence and defence stature.
- Global competitiveness:
  - Largest defence company in Africa with global presence;
  - Earn foreign currency through export revenue; and
  - Positively impacting foreign relations.
- Employment and skills development – providing quality employment opportunities in a high-tech environment, as well as artisan competency development:
  - Spending R64m towards skills development within the financial year under review;
  - Denel, including associated companies, employs 6 555 employees;
  - Supports an estimated 20 000 indirect jobs; and
  - Schools outreach programme.
- Countertrade and offset - good progress in delivering offset solutions in some of our buying regions, such as the Middle East, Far East and South America.
- Environmental responsibility – ISO certifications, regular environmental studies, clean air manufacturing, land rehabilitation and reduced energy utilisation, etc.

OUR VISION AND STRATEGIC DRIVERS

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 AND STRATEGIC DRIVERS:

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 2 rating • Skills development • Transformed organisation	

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

HOW WE OPERATE

OUR OPERATIONS AND VALUE CREATION TAKE PLACE AT BUSINESS UNIT LEVEL: DAe, DAv, DD, DLS, LMT, PMP AND OTR. OUR BUSINESS MODEL ALIGNS THESE INTERDEPENDENT BUSINESSES[1].

CONCEPTUALISATION → DESIGN, INDUSTRIALISATION, AND ACCEPTANCE → SCOPING AND CONTRACTING → MANUFACTURING, MAINTENANCE, ASSEMBLING, INTEGRATION AND TESTING → DELIVERY, PRODUCT SUPPORT AND WARRANTY

RISKS AND OPPORTUNITIES
HUMAN CAPITAL
COMPLIANCE FRAMEWORK
VISION, MISSION AND STRATEGY
BUSINESS DEVELOPMENT
NATURAL CAPITAL
ENVIRONMENT

DENEL PRODUCTS AND CAPABILITIES

ARTILLERY
- 155mm G6 Self-Propelled Guns
- 155mm G5 Towed Guns
- 105mm Leo Guns
- Charges and Propellants
- Laser Range-Finders

SECURITY AND BORDER CONTROL
- Seeker 200 and 400
- Light Weapons
- Ammunition
- MEDDS
- Casspir Vehicles
- Surveillance Equipment
- Mine Clearing

NAVAL
- 20mm Guns
- Umkhonto Missile
- DPS-35 Guns
- Ammunition
- Periscopes

AEROSPACE
- Inflight Testing
- Aerostructures
- Aircraft MRO
- Manpower Supply
- Air-to-Air Missiles
- Precision-Guided Bombs
- UAVS
- Ejection Cartridges
- Aircraft Bombs
- Engines and Gearboxes
- Stabilised Gimbals

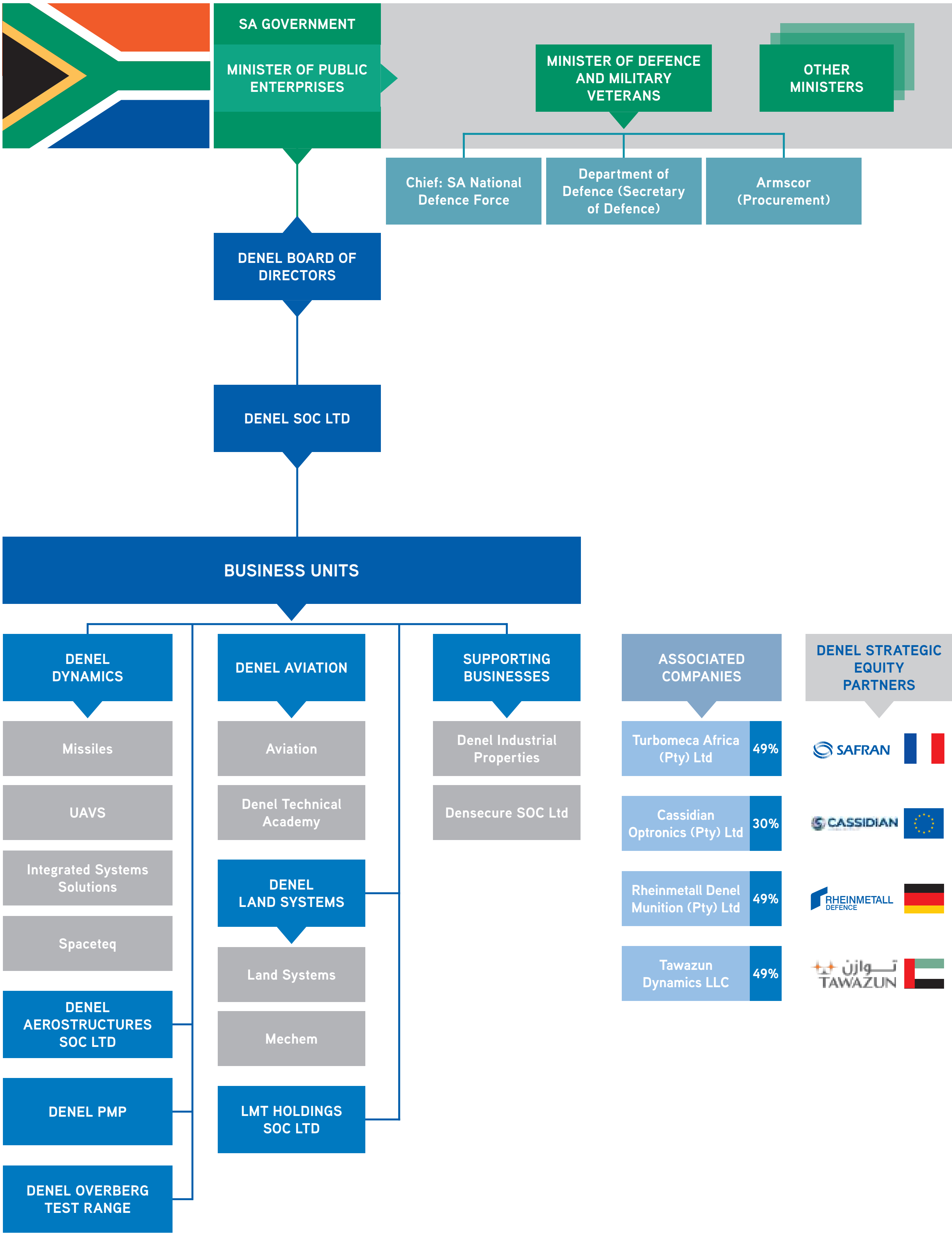
INFANTRY
- Anti-Armour Missiles
- Active Missile Protection
- Air Defence Systems
- Combat Vehicles
- Vehicle Turrets
- Machine Guns
- Ammunition
- Anti-Materiel Rifles
- Automatic Grenade Launcher
- Casspir Vehicles
- Pyrotechnics
- Laser Range-Finders

TRAINING AND OTHER
- Artisan Qualification
- Engineering Training
- Mine Clearing Training
- Mining Drill Bits
- Rocket Motors
- Warheads
- Energetic Materials

STRONG STAKEHOLDER ENGAGEMENT MODEL

1 *For further details on business unit operations refer to the performance review section on pages 31 to 43*

ORGANISATIONAL STRUCTURE



DIRECTORS' STATEMENTS

PART TWO

CHAIRMAN'S STATEMENT

I AM PLEASED TO PRESENT SOLID AND SUSTAINABLE FINANCIAL RESULTS FOR THE YEAR UNDER REVIEW. THESE RESULTS ARE ATTRIBUTABLE TO OUR REVENUE GROWTH STRATEGY, INCREASED ACTIVITIES AND PROACTIVE COST OPTIMISATION. THESE FINANCIAL RESULTS SHOULD BE VIEWED IN THE CONTEXT THAT DENEL HAS BEEN POSTING PROFITS OVER THE LAST FOUR YEARS AND THE STRONG FIVE-YEAR BUSINESS PLAN THAT IS IN PLACE.

In 2014, we are not only looking back on two decades of Denel, but also on two decades of South Africa's freedom and democracy. We, as the Denel family, join in celebrating the 20 years of freedom and democracy, and we take the opportunity to reflect on the contribution Denel has made to the country. Denel has indeed contributed to and strengthened the country's technology and manufacturing base. We have made interventions by developing skills and maintaining jobs. The group, including associated companies, employs 6 555 employees, supporting an estimated 20 000 indirect jobs in the economy through the supply chain.

Over the period, we have executed and completed significant programmes, including the Rooivalk, G6, UAVs and various missile programmes. We have seen Denel's capabilities evolving and maturing over the two decades. Of particular importance, we have also seen the business growing and returning to profitability on a sustainable basis. I am pleased to present solid and sustainable financial results for the year under review. These results are attributable to our revenue growth strategy, increased activities and proactive cost optimisation.

These financial results should be viewed in the context that Denel has been posting profits over the last four years and the strong five-year business plan that is in place. The five-year business plan, the strongest in the history of the company, shows further improvement in financial performance and a sound balance sheet. Denel's improved financial performance truly confirms the effectiveness of our strategy.

STRATEGY

We regularly review Denel's strategy and it continues to be focussed on revenue growth, cost optimisation, enhancing capabilities through innovation, as well as leadership development and transformation. Denel has orders concluded (order book) in excess of R32bn and is pursuing a number of prospects with close to R20bn of these prospects at an advanced stage of being converted into orders. These opportunities are in our established markets and include our core products of artillery, missiles and aerospace systems.

Our strategy includes establishing additional capabilities, either organically or through selected acquisitions and partnerships. To this end, Denel has in partnership with SANSA, successfully diversified into the space domain, which includes satellite design, manufacturing and launch capabilities. There is an increased focus on modernising UAV, artillery and aircraft MRO capabilities, as well as implementing selected plant renewal at our ammunition facility to improve efficiency.

The SA Defence Review approved by Cabinet, recognises that the defence industry should be strongly supported and prioritised as a strategic manufacturing sector. We are encouraged that the review emphasises the importance of the defence industry, and specifically identifies Denel as a strategic national asset. We believe that this policy will have a positive impact on Denel and the rest of the defence industry.

Integral to growing revenue is the ongoing improvement of our stakeholder relationships. I have been involved in interactions with our customers, shareholder, parliament and other government departments, and I am pleased that there is strong confidence in Denel and an overall improvement in stakeholder relationships. Furthermore, a memorandum is being drafted between the DoD&MV and Denel that will regulate the strategic nature of the relationship going forward. Matters under consideration are support required on export opportunities, sustaining sovereign and strategic capabilities and security of supply.

Denel is on a firm footing, with an effective board and solid management team that I endearingly refer to as the "A-team". I have worked closely with the management team that has displayed a strong value system, immense technical capabilities and strong leadership. I am confident that we have the strategy, people and resources to deliver sustainable growth in the years ahead.

CONTRIBUTION TO NATIONAL IMPERATIVES

Denel continues to be involved in socio-economic initiatives that contribute to national imperatives in the area of skills development and job creation. Our schools outreach programme has proven to be very successful and we are proud to have contributed to the achievements of an 18-year-old North West student who formed part of the schools outreach programme and ranked among the country's top-scoring matriculants in 2013.

During June 2013, Denel hosted 100 learners from the Free State province in collaboration with DPE and other SOCs reporting to DPE. These learners from grades 9 to 11 were exposed to various careers available at the different SOCs. Due to its overwhelming success, this programme is scheduled to be an annual event alternating between the nine provinces.

Denel was involved in a number of SED activities including a project in the Ingquza Hill Municipality area in the Eastern Cape, where Denel installed a telematics learner support system, provided over 400 maths dictionaries to the four local high schools and funded four boreholes to provide drinking water to the community.

In support of its transformation goals, Denel is involved in skills development initiatives, succession planning and youth programmes. The board is encouraged by Denel's progress made towards improving representivity, which improved over a three-year period from 45% ACI employees to 52% in the current year.

OUTLOOK

Denel foresees strong market growth in its traditional export markets, as well as in certain local programmes. As articulated above, Denel has a significant order book and a number of realistic prospects that are at an advanced stage of negotiations and expected to be concluded within the short- to medium-term. Due to the long-term nature of the underlying activities, the financial impact of the resulting contracts will only become visible from year two to three after date of signature.

We are very pleased that Hoefyster, an R8.4bn project to produce infantry combat vehicles, was awarded to Denel by the SANDF during the year under review. Hoefyster is the single largest defence contract signed with a SA company in the last ten years. The awarding of the contract to Denel demonstrates government's and the SANDF's confidence in the ability of the local industry to provide frontline equipment. The benefits of the project include creating jobs in the industry, as well as retention of critical specialised capabilities and technology base. It will further create a platform for Denel to train and retain skills, such as artisanal, technical and engineering skills, to ensure the sustainability of the company and to meet government's objectives. The project will also be used to develop small, medium and micro enterprises (SMMEs) and achieve other Denel transformation objectives.

We believe that Denel is well-positioned to secure targeted opportunities, as it focuses on delivering on client requirements, whilst managing its cost base effectively. We are confident that the group will generate sustainable returns for all stakeholders as contained in the latest five-year business plan.

GOVERNANCE

The board and its committees continue to be effective in monitoring performance, support management and fulfil its strategic oversight role of the group. This was confirmed in the annual effectiveness review, which focussed on independence, size and composition, as well as board functioning among others. At our AGM on 15 August 2014, I will step down as chairman. I acknowledge my fellow board members for their individual and collective wisdom during my tenure in office. Their strong commitment to serving Denel is greatly appreciated. I also extend my well wishes to some of my fellow board members who have also reached the end of their term.

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 take the opportunity to welcome the new Minister, Ms Lynne Brown, and Denel looks forward to working closely with her office.

I also thank the Minister of the 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 and the Director-General of the National Treasury, Mr Lungisa Fuzile. I further acknowledge the support by the Deputy Minister of Finance, Mr Nhlanhla Nene, and congratulate him on his recent appointment as the Minister of Finance.

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

Zoli NR Kunene
Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

DURING THE YEAR UNDER REVIEW, DENEL POSTED SOLID OPERATIONAL AND FINANCIAL RESULTS. THE GROUP'S REVENUE GREW BY 17% YEAR-ON-YEAR, AND THIS COMBINED WITH OUR CONTINUED DETERMINATION TO REDUCE OVERHEADS CONTRIBUTED TO AN IMPROVED BOTTOM LINE.

I am convinced that Denel is a state-owned company that all South Africans can be rightfully proud of as the high-technology powerhouse on the African continent and a global player in the defence, aerospace and advanced manufacturing industries. Denel is a much better company than it was some few years ago. From a strategic perspective, it is a stronger company, well-respected and well-positioned for growth.

Our strategy continues to be strongly focussed on revenue growth, improving efficiencies, and modernising technology and capabilities. We have seen continued implementation of this strategy during the year and its results are clearly demonstrated in the group's achievements, as well as overall financial performance. We have further seen the largest multi-year order book since the inception of Denel of R32bn and an opportunity pipeline of which R20bn is projected to be converted to orders in the short- to medium-term.

During the year under review, Denel posted solid operational and financial results. The group's revenue grew by 17% year-on-year, and this combined with our continued determination to reduce overheads contributed to an improved bottom line. The 2013/14 year was a financial year in which we delivered definitively on our strategic objectives.

In continuing the admirable turnaround of Denel, FitchRatings upgraded the company's long-term rating to AAA (zaf) from AA- and confirmed the short-term rating at F1+(zaf) with a stable outlook. The FitchRatings review cited alignment of Denel's rating with that of government, the increase in Denel's order book and continued strong shareholder support as the main drivers for the rating upgrade. In practical terms a higher credit rating lowers borrowing costs and will certainly assist Denel in obtaining

additional capital and bank facilities in support of the growth strategy as discussed below.

POSITIONED FOR GROWTH

As mentioned earlier on, our strategy themes continue to be revenue growth, productivity and efficiency, enhancing capabilities, fostering innovation, as well as people and transformation. The focus is on the realisation of our growth ambitions, building on what we achieved in prior years.

The essence of the **revenue growth** strategy is to ensure a significant increase in the order book, stronger relationships with customers and stakeholders and leveraging on existing partnerships to secure business. In the context of this strategy pillar we have continued to mature our internal business development functions and processes. The business has become more outward looking, and as a result we have attended various defence shows and exhibitions, met a number of our key clients, hosted delegations from various countries and liaised closely with government departments regarding key opportunities. We have further strengthened our foreign satellite offices to improve the coordination of opportunities in the respective countries.

As indicated above, the order book has grown substantially to R32bn, which will be executed over the next ten years, thus confirming the robust nature of our strategy. I am pleased that the order book has significantly improved when compared to prior years, an exceptional achievement securing a six-fold cover of annual revenue. Our key business development successes include:

- Securing the Hoefyster production contract during September 2013, the largest contract awarded in Denel's history, a watershed development for the company and the SA industry. The contract will have a significant impact on the local industry which forms part of Denel's supply chain. It will also create an opportunity to facilitate enterprise development (ED) and contribute to job creation.
- LMT is in a growth phase and has secured contracts of over R4bn including a contract to supply AB92 vehicles at R3.5bn. It is estimated that it will result in additional jobs created at LMT and other jobs in the industry. This will significantly accelerate transformation and also result in ED opportunities for bought-out goods, such as the hydraulics, air-conditioning, seats, brakes, etc.
- Tawazun Dynamics reached facility readiness and started the first production activities during the year under review. The entity concluded a six-year contract with a value of up to R5bn to manufacture precision-guided munitions. It is anticipated that DD will have a significant work share in this contract.

Whilst our industry remains competitive, we are optimistic that opportunities being pursued will be realised.

The **productivity and efficiency** strategy focuses on optimising operational excellence, driving cost efficiency and strengthening the balance sheet. As a result, we have continued to scrutinise all our businesses to determine the current reality in terms of operational efficiency and formulated initiatives to address opportunities and challenges identified. We are, for example, evaluating the possibility of embarking on selected plant renewal in our ammunition business unit to enhance operational and cost efficiency, as well as further reduce energy consumption.

We have continued the cost containment drive and are pleased that this has resulted in further reduction of operating costs. Our balance sheet continues to be closely managed, focussed on working capital management and cash conservation. The approach ensures that the group always fulfils its contractual obligations, and remains sustainable.

The **enhancing capabilities and fostering innovation** strategy is focussed on increasing investment in R&D, developing new technologies and expanding our product offering. We realise that to remain competitive, the company has to continue investing in developing future capabilities and technologies. To this end, we have recently signed a MoU with the CSIR to deepen collaboration in R&D.

Denel has diversified into the space domain, and during the year the Spaceteq business unit was set up in the Western Cape. Spaceteq was accepted as a member of the International Astronautical Federation in September 2013. Spaceteq has commenced with its first project for SANSA, which is building an earth observation satellite for commissioning by 2017.

In the context of the broader strategy of enhancing capabilities, we have identified areas for modernisation and these include: UAV, artillery and aircraft MRO capabilities. We project increased activities in the identified areas and have accordingly allocated resources.

People and transformation strategies are focussed on skills development, creating a transformed organisation and improving Denel's B-BBEE rating. Ensuring a diverse workforce continues to be a key priority of the leadership of Denel. We have a diverse executive leadership team, but challenges still remain in the other management categories. We are making progress towards our EE targets, for example of the appointments made during the year, 85% were ACI candidates and 26% females.

I am convinced that the calibre of people in the company is such that we can make the company a great one through our commitment to the company and transformation.

OPERATIONAL PERFORMANCE

Reflecting on the successes of 2013/14, I wish to highlight a number of important achievements:

- The completion of development and validation of the Oryx upgrade programme leading to the full-scale fleet-embodiment phase;
- Good progress on the development of the precision-guided munition contract, Al-Tariq, including the successful flight test of the weapon;
- Successful Umkhonto 20km range air defence system capability demonstration;
- Successful deployment of the Rooivalk helicopter in active service by the SANDF in support of peacekeeping operations in the Democratic Republic of the Congo;
- Successfully conducted the Seeker 400 UAVS' first flight. Further demonstrations with potential customers are planned for mid-year;
- Working towards final development and qualification of the A-Darter fifth-generation air-to-air missile, which is being developed in collaboration with Brazil; and
- Steady production ramp-up on the A400M programme for the wing-to-fuselage fairing (WFF), fuselage top shells (TS) and the industrialisation of the vertical tail plane ribs, spars and sword (RSS).

OUR STAKEHOLDERS ARE IMPORTANT

The success of the strategy depends on strong interaction with and support by our stakeholders. We continue to work hard on the strategic relationship with our local customer and have seen this relationship strengthening over the years. We are encouraged that the strategic cooperation between DoD&MV and Denel is being formalised. This will improve the operational planning, optimise resources and improve working capital management.

The 2014 Defence Review approved by Cabinet in March 2014, further stresses the importance of this strategic relationship. Denel will participate in the National Defence Industry Council, the highest consultative body between the defence industry and the DoD on matters of policy formulation, compliance, export support and joint planning. I foresee that this will be a valuable forum for Denel to contribute to the successful development of the local industry.

We have made inroads in establishing relationships with fellow SOEs, in particular those that have requirements that fall within Denel's portfolio of products and services. This is in line with the vision of the shareholder for SOEs to share expertise. A number of activities are ongoing in this regard and Denel has been awarded a contract by the Transnet National Ports Authority (TNPA) to perform MRO work on their aircraft fleet.

Discussions are underway with dti and DPE regarding National Industrial Participation (NIP) work packages for the aerospace industry once South African Airways (SAA) and South African Express (SAX) have concluded their planned procurements. We readily welcome involvement in these projects and will continue strengthening our relationships with all SOEs.

VALUES BASED LEADERSHIP

We believe that, when it comes to values of an organisation, attitudes, gestures and everyday actions are as important as broader business initiatives. Values describe how we behave towards one another, towards our stakeholders and in the way we implement our strategies. Values are the starting point of any successful organisational cultural programme. Companies that are most successful over the long-term are those that incorporate their values at the core of their everyday business operations. Our values are: Performance, Integrity, Innovation, Caring and

Accountability. Ensuring that the Denel values are lived by all employees has been the organisational development focus for the year under review.

CONTRIBUTION TO SUSTAINABLE FUTURE

Our business practices contribute to future sustainability. 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. Reporting on sustainable development is provided throughout the integrated report.

APPRECIATION

I acknowledge our shareholder and thank the Minister, Deputy Minister, the Parliamentary Committees and the Director-General of the DPE for their continuous guidance and support. 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.

My gratitude goes out to the Denel board and the chairman for their leadership, continued support and confidence in the executive team of Denel under my leadership.

Denel's success is attributed to the contribution of all employees. Their unwavering diligence and passion contributes significantly to our success. I wish to express my appreciation to the executive team, as well as each and every employee of Denel for their individual contributions which enabled the company to succeed.

Creating a dynamic and vibrant workplace is one of our key priorities. My wish is that we enter 2014/15 with a renewed commitment to the growth of our industry.

Riaz Saloojee
Group chief executive officer

PERFORMANCE REVIEW

PART THREE

FINANCIAL RESULTS

Revenue R4 588m grows by 17%

Net profit R194m improves by R123m

Debt equity ratio improves from 1.3 to 1.1

Local revenue R2 313m remains fairly stagnant

Export revenue R2 275m improves by 28%

Significant R&D spend of R507m

Skills development spend of R64m

Operating profit R224m improves 91%

Equity position R1 664m improves by R192m

Borrowings reduce by R38m

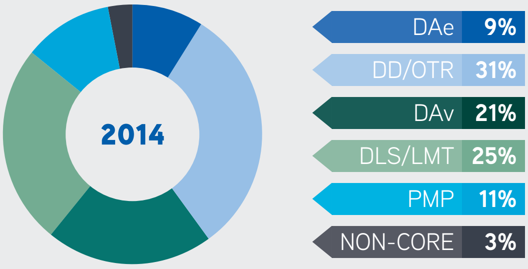
EXTRACTS FROM THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

	GROUP		
	2014 Rm	2013 Rm	2012 Rm
Income statements			
Revenue	4 588	3 918	3 568
Gross profit	899	826	862
Other income	204	231	196
Other operating expenses	(879)	(940)	(958)
Share of profit of associated companies	58	72	33
EBIT	282	189	133
Net finance costs	(92)	(107)	(84)
Profit for the year	194	71	41
Statements of financial position			
Cash and cash equivalents	1 513	1 297	1 094
Total assets	8 089	6 778	5 642
Equity	1 664	1 472	695
Loans and borrowings	1 875	1 913	1 966
Maturing within 12 months	259	507	1 865
Maturing between 12 and 60 months	1 616	1 406	101
Ratios			
Debt/equity ratio	1.1:1	1.3:1	2.8:1
Current asset ratio	2.3:1	1.8:1	0.9:1

REVENUE

During the year under review, revenue increased by 17% compared to the prior year. Export revenue increased significantly and now comprises 50% of total revenue (2012/13: 46%). We have seen revenue increasing in all business units, save for DAv and PMP where revenue declined marginally. The revenue growth is due to a number of programmes moving into production resulting in increased activities in contracts such as Al-Tariq, Infantry Combat Vehicles, A400M, test range contracts and revenue from the recently formed Spaceteq business unit.

REVENUE CONTRIBUTION PER BUSINESS UNIT



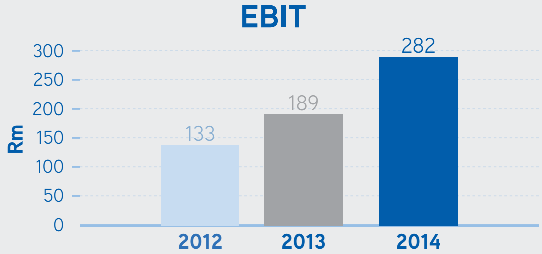
EARNINGS BEFORE INTEREST AND TAX

Financial results are solid with EBIT significantly improving from the prior year. This is largely due to an increase in export revenue, the operating costs reducing by 12% in real terms and the positive impact of the weaker rand. Included in these financial results are unrealised foreign exchange gains of R55m.

The reduction in operating costs can be attributed to cost optimisation initiatives and a reversal of impairment of R42m previously raised on assets that were underutilised at the time that are now fully utilised.

The financial results were negatively impacted by reduced performance of the associated companies due to inventory impairment at RDM and accounting for start-up losses in Tawazun Dynamics as originally anticipated.

EBIT



FINANCE COSTS

Denel is funded through a combination of corporate bonds, commercial paper and bank credit facilities. The average borrowings amounted to R1.875bn throughout the year resulting in net external interest paid of R84m excluding unwinding of interest on long-term provisions and interest received on pension assets. This is in line with prior years.

NET PROFIT

Taking into account all of the factors above, net profit improved by R123m to R194m for the year under review.

CASH FLOW

The defence industry requires high upfront working capital investment, and this often places defence companies in a challenging position from a cash management point of view. The group generated positive cash from operations of R474m for the year. The cash resources increased from R1.3bn in the prior year to R1.5bn at the end of 2013/14. There continues to be adequate cash facilities to mitigate any liquidity risk.

FINANCIAL STRUCTURE AND LIQUIDITY

Denel has access to funding from a number of sources and, as such, operations are funded through a combination of cash generated from operations, short- and medium-term bank credit facilities, corporate bonds and commercial paper.

The shareholder's equity improves as Denel continues to post profits. The reducing debt and improving equity resulted in the debt to equity ratio improving from 1.3 to 1.1. Denel is targeting a ratio of 0.5 in the medium-term.

FitchRatings has recently upgraded Denel's rating to an 'AAA' (zaf), highlighting that Denel is a good performing company with a large order book, strong management and governance, as well as sound support of the shareholder.

RISK MANAGEMENT

Denel has adequate risk management processes in place as detailed on pages 65 to 69. The risk items include fluctuation of foreign currency, sustainability, compliance and strategic business challenges. The risk items and mitigation plans are evaluated regularly by management, the audit and risk committee (A&R) and the auditors.

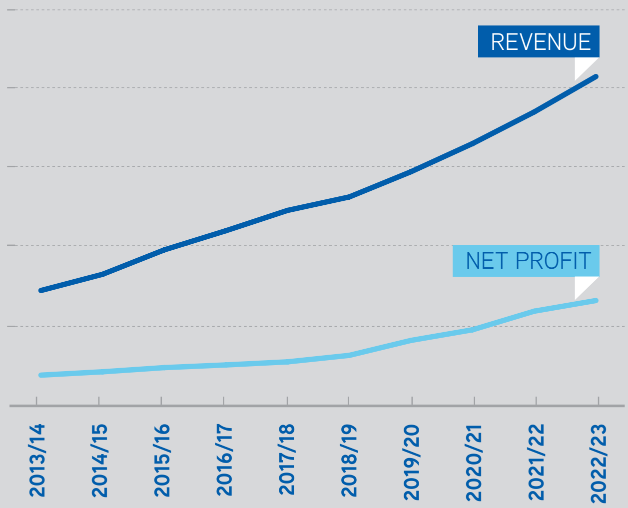
OUTLOOK

The global defence industry is expected to continue to be subdued owing to the state of the world economy as some countries' defence budgets remain fairly static. However, there is a positive outlook in respect of Africa and emerging markets as their defence budgets are likely to continue to be on the rise. Denel's own outlook is very positive taking into account that the group has an order book in excess of R32bn, the highest order cover in the history of the company. The order book includes recently concluded orders, such as the local Hoefyster production contract, the turret contract for a Southeast Asia client, A400M work packages and Al-Tariq stand-off weapons contract. The company is pursuing order opportunities with close to R20bn of these at an advanced stage of being converted to orders.

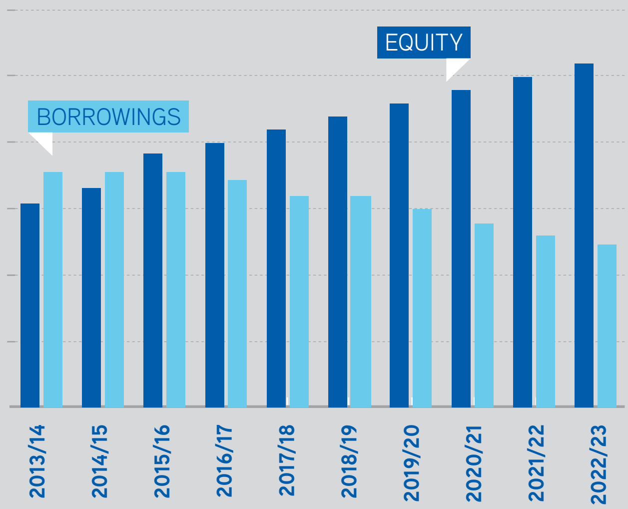
Our projections show strong financial performance, revenue growth and a stronger balance sheet with improvement in the solvency position and stability in borrowings. We are satisfied with the projected growth, and will invest in infrastructure and capabilities accordingly.

TEN-YEAR OUTLOOK GRAPHICALLY

REVENUE AND NET PROFIT



EQUITY AND BORROWINGS



VALUE ADDED STATEMENT

for the year ended 31 March 2014

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.

		GROUP			
		2014		2013	
	NOTES[1]	Rm	%	Rm	%
Revenue	2	4 588		3 918	
Less: Cost of materials and services purchased		(2 856)		(2 190)	
Value added		1 732		1 728	
Add					
Finance income	6.2	48		36	
Other income	4	204		231	
Wealth created		1 984		1 995	
Distributed as follows:					
Employees: Salaries and relevant costs	3	1 516	76.3	1 663	83.3
Providers of capital		140	7.1	143	7.2
Finance costs	6.1	140	7.1	143	7.2
Non-controlling interest		-	-	-	-
Government					
Tax (refer note A)		6	0.3	21	1.1
Re-invested in the group for continuation and expansion		322	16.3	168	8.4
Depreciation		128	6.5	97	4.9
Profit for the year		194	9.8	71	3.5
Wealth distributed		1 984	100.0	1 995	100.0
Note A					
Tax					
Tax paid and provided for:		6		21	
Current tax	7	(5)		7	
Total tax	7	(4)		11	
Less: Deferred tax	7	(1)		(4)	
Rates and taxes paid to local authorities		11		14	
Net skills development		9		7	
UIF contributions by employer		7		6	
		22		34	
The total amount reflected above excludes the following amounts collected by the group on behalf of Government:					
Net VAT		68		(15)	
Charged on revenue		525		362	
Levied on purchases		(457)		(377)	
Employees' taxation		333		338	
UIF contributions by employees		7		6	
		408		329	

1 *Refer to the notes to the consolidated annual financial statements*

TEN-YEAR REVIEW

as at 31 March 2014

There have been significant improvements in Denel's financial performance since 2010/11. The following table illustrates the group's ten-year financial performance:

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
CONSOLIDATED INCOME STATEMENTS										
Revenue	**4 588**	3 918	3 568	3 252	3 610	3 924	3 818	3 268	2 773	3 572
Operating profit/(loss)	**224**	117	100	(314)	(162)	(463)	(233)	(387)	(1 076)	(1 315)
Net finance costs	**(92)**	(107)	(84)	(120)	(139)	(73)	(61)	(143)	(188)	(104)
Depreciation	**(128)**	(97)	(93)	(93)	(92)	(112)	(108)	(132)	(150)	(157)
Profit/(Loss) before taxation	**190**	82	49	110	(236)	(508)	(312)	(494)	(1 291)	(1 409)
Profit/(Loss) after taxation for the year from continuing operations	**194**	71	41	111	(246)	(533)	(321)	(507)	(1 311)	(1 416)
Income tax expense	**4**	(11)	(8)	1	(10)	(25)	(9)	(13)	(19)	(7)
Non-controlling interest in profit/(loss)	**-**	-	-	(47)	(65)	(91)	(13)	(1)	-	5
EBIT	**282**	189	133	230	(97)	(435)	(251)	(351)	(1 103)	(1 305)
Profit/(Loss) for the year	**194**	71	41	111	(246)	(533)	(347)	(549)	(1 363)	(1 561)
CONSOLIDATED STATEMENTS OF CASH FLOWS										
Cash flows from operations	**474**	(151)	360	178	(344)	(806)	72	(1 015)	(1 132)	(276)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION										
Non-current assets	**2 293**	2 177	2 131	2 110	1 677	1 623	1 476	1 348	1 601	2 173
Current assets	**5 712**	4 497	3 420	2 921	3 343	3 107	3 607	2 616	2 724	2 410
Non-current assets held for sale	**84**	104	91	7	-	9	58	540	352	68
Total assets	**8 089**	6 778	5 642	5 038	5 020	4 739	5 140	4 504	4 677	4 651
Current liabilities	**2 484**	2 465	3 659	3 704	3 671	3 446	3 081	3 000	1 938	2 888
Non-controlling interest	**6**	8	-	-	(34)	31	102	6	7	7
Non-current loans and borrowings	**1 616**	1 406	101	101	101	53	1	2	832	848
Current loans and borrowings	**259**	507	1 865	1 845	1 943	1 074	234	833	14	520
Total equity surplus/(deficit)	**1 664**	1 472	695	654	609	849	1 328	633	615	(16)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	%	%	%	%	%	%	%	%	%	%
RETURNS										
Operating profit/(loss) to revenue	**4.9**	3.0	2.8	(9.7)	(4.5)	(11.8)	(6.1)	(11.8)	(38.8)	(36.8)
Operating profit/(loss) to average total assets	**3.0**	1.9	1.9	(6.2)	(3.4)	(9.9)	(4.8)	(8.4)	(23.1)	(30.1)
Operating profit/(loss) to ordinary shareholders' interest[1 and 2]	**14.3**	10.8	14.4	(48.0)	(26.6)	(54.5)	(17.5)	(61.1)	(175.1)	-
RATIOS										
Debt/equity ratio[2]	**1.1**	1.3	2.8	3.0	3.4	1.3	0.2	1.3	1.4	-
Current asset ratio	**2.3**	1.8	0.9	0.7	0.8	0.9	1.2	0.9	1.4	0.8
Net finance cost cover	**2.1**	0.8	0.7	1.2	(1.6)	(6.9)	(5.2)	(3.5)	(6.9)	(13.5)
Revenue per employee (Rm)	**1.1**	0.9	0.8	0.7	0.7	0.8	0.5	0.4	0.3	0.4
STATISTICS										
Number of shares in issue (million)[3]										
Class A ordinary shares	**1 000**	1 000	1 000	1 000	1 000	1 000	1 000	976	849	402
Class B ordinary shares	**225**	225	225	225	225	225	225	40	40	40
Total shares	**1 225**	1 225	1 225	1 225	1 225	1 225	1 225	1 016	890	442
Number of employees[4]	**4 136**	4 219	4 716	4 716	5 090	5 067	7 276	7 634	8 850	9 942

1 *The ratio was calculated using the average ordinary shareholders' interest*
2 *Due to the negative equity, the debt/equity ratio and loss to average ordinary shareholders' interest for 2005 are undefined*
3 *Refer note 21.2*
4 *Including associated companies 6 555 employees in 2013/14*

PERFORMANCE AGAINST THE SHAREHOLDER'S COMPACT

Denel commits to key performance areas with its shareholder on an annual basis which 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 most 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	CONTRACTED	ACHIEVED
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	Milestones achieved per contract deliverables	>85%	**>95%**
Strategic economic role	Local content	Local procurement as % of total procurement on core programmes	≥70%	**71%**
	Investment in R&D	Self-funded R&D as % of revenue	≥3%	**3%**
Business sustainability	Revenue	Increase in revenue year-on-year	≥12%	**17%**
	Profitability management	EBIT as % of revenue	3%	**6%**
	Cash from operating activities	Cash flow from operations before changes in net current assets as % of revenue	2%	**5%**
	Order cover	Orders concluded in respect of the coming year as % of revenue budget of that year	60%	**85%**
	Operating expenditure (OPEX)	Operating expenditure as % of revenue	22%	**19%**
Socio-economic objectives	Contribution to economic transformation (including key supplier development)	B-BBEE contributor level	Level 3	**Level 3**
	Employee training spend	Training as % of personnel cost	3%	**3%**
	Skills development: scarce skills and critical skills	Number of engineering trainees	29	**17 engineering trainees and 82 engineering bursars**
	New Growth Path (NGP) commitments and Denel specific learners	Technician trainees	12	**16**
		Artisan trainees	64	**126**
		DTA partnership artisan trainees	435	**231 apprentices and 764 learners attended type training and advanced courses**
	Employment creation - Direct jobs created (Denel employees)	Number of direct jobs created	88	**99**

OPERATIONS

Denel performed well from an operations perspective as it executed and delivered on various projects. Business units exceeded operational targets as shown by the overall performance of the group. Two significant programmes, Hoefyster and Al-Tariq, moved to the production phase after completing years of development. These long-term production programmes provide a sound base-load for the future.

Denel entered a new area of operation, namely satellite development through the Spaceteq business unit. Employees were transferred from the previous space entity to the newly established business unit within DD. The Spaceteq business unit is still in early stages, and we are encouraged by the recent conclusion of a contract to develop the EO-Sat 1 satellite in partnership with SANSA.

We foresee significant growth in the LMT operations as the business recently secured a contract to manufacture and supply light armoured vehicles. It is anticipated that the growth will result in creating direct and indirect jobs. This contract will also result in ED opportunities for bought-out goods, such as the hydraulics, air-conditioning, seats, brakes, etc.

HIGHLIGHTS

Denel has embraced the "good to great" mantra, and this reflects our expectation for continued improvement in operational performance. During the year under review, Denel had various operational successes, notably:

- The completion of development and validation of the Oryx upgrade programme leading to the full-scale fleet-embodiment phase;
- The successful first flights of the advanced new Seeker 400 UAVS;
- The test and validation of various operational features of the new Al-Tariq precision-guided munitions;
- Excellent progress on the various Airbus A400M production packages; and
- A record number of successful test campaigns executed at OTR.

Another highlight is the recent positive media coverage regarding the excellent performance of the Rooivalk combat support helicopter during deployment as part of peace support operations in Africa.

Further information regarding business unit performance follows on pages 35 to 41.

OPERATIONAL PERFORMANCE MANAGEMENT

We drive operational efficiency by constantly balancing the available resources against those required for the execution of programmes. This forward looking analysis informs Denel as to whether to recruit or increase skills incubation programmes for future execution of

DENEL HAS EMBRACED THE "GOOD TO GREAT" MANTRA, AND THIS REFLECTS OUR EXPECTATION FOR CONTINUED IMPROVEMENT IN OPERATIONAL PERFORMANCE. DURING THE YEAR UNDER REVIEW, DENEL HAD VARIOUS OPERATIONAL SUCCESSES.

programmes. Our operational performance management processes take into account that large new programmes require a considerable time to mature.

Denel sees the current growth prospects as an opportunity to amplify its current initiatives regarding stakeholder engagement, facilities, internal and external resources, and skills development. The following ongoing management activities contributed to improved operations:

Closer strategic relationship with our primary customers

- Long-term planning enabler; and
- Multi-year rather than one-year contracting.

Internal HR and skills base

- Accelerated pipeline model taking in young, high-potential candidates through the bursary, internship and mentorship programmes;
- Developing a model of easier migration of skills within Denel between business units to serve "hotspot" areas; and
- Special HR interventions on a case-by-case basis in particular where experienced, specialised skills are required and where the normal development process of young talent may be too slow.

External suppliers and subcontractors

- Developing much deeper and more strategic relationships with suppliers, to ensure improved insight into potential new programmes, and also develop a better, long-term competent supplier base.

Plant, equipment and operational infrastructure

- Other than PMP which is planning a plant rejuvenation programme, business units are well-equipped to execute growth plans from a capital and infrastructure perspective; and
- Denel's satellite operations through the Spaceteq business unit are still in an early stage of development.

CAPABILITY DEVELOPMENT

The development of new capabilities is essential to ensure future sustainability of the business. A summary of the current capabilities is depicted in the business model on page 9. It is clear that all existing capabilities will remain relevant for many years to come, but there is a need for ongoing technology modernisation and upgrades. As a result, we are allocating appropriate resources towards technology modernisation and upgrades.

TECHNOLOGY ADVANCEMENT

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 PMP business unit. From 1948 to 1951 the SA DoD establishes an advisory committee, defence production office and resources board to support its defence production and resource requirements. Production of aircraft rockets and heavy ammunition commences. The National Institute for Rocket Research and Development at the CSIR establishes missile technology by developing air-to-air missiles.

In the early sixties a substantial effort is 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 DoD.

The SA Royal Mint is converted to an ammunition factory in 1938, marking the start of the PMP business unit.

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 vehicles. Denel develops UAVS, including state-of-the-art ground control stations and secure communications. A multi-purpose test range is established with the purpose of servicing the strategic flight-test needs of the SANDF.

During the mid-eighties, Denel commences with the development of the combat support 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, leading to a decision to separate production and procurement functions.

During the mid-eighties, Denel commences with the development of the combat support helicopter, the Rooivalk, which includes an integrated weapons system.

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. 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 capabilities. 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.

A turnaround strategy aimed at bringing Denel to profitability is launched. It includes rightsizing and decentralisation to improve financial performance and accountability.

2010-2014

After a decade of posting financial losses, the group returns to profitability. Denel implements various initiatives, including strategies focussed 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.

Defence Review policy position is approved by Cabinet. The review states the importance of the defence industry, the fact that it's a strategic manufacturing sector, the need for a strategic relationship between government and the industry, as well the fact that Denel is a strategic asset.

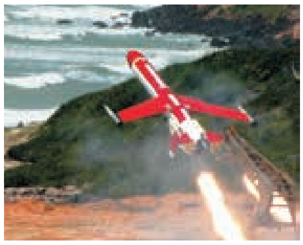
Denel successfully diversifies into the space domain and is considering selected mergers and acquisitions in order to improve its product offering. The group further directs its future investment towards areas such as artillery, UAVS, MRO and munitions.

After a decade of posting financial losses, the group returns to profitability.

BUSINESS UNITS CORE PRODUCTS

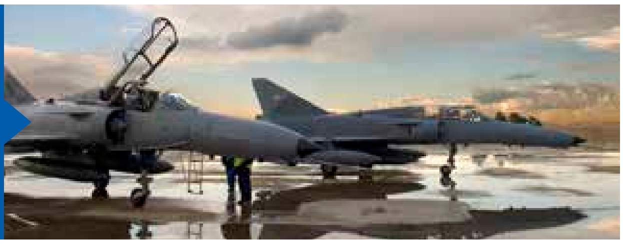
DLS

DD



PMP

DAv



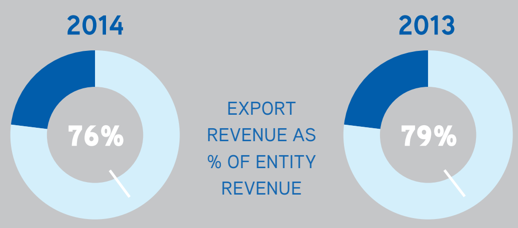
DAe

OTR

LMT

DENEL LAND SYSTEMS

DLS is a consolidated, project-based, leading systems designer and integrator for combat turrets, artillery and infantry systems, small arms and armoured vehicles. 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 UN, other international agencies, governments and commercial customers globally.



	2014 Rm	2013 Rm	%
Revenue	1 078	914	18
Export revenue	818	725	13
EBIT	42	51	(18)

516 EMPLOYEES

2014	2013	2012
3	3	4

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

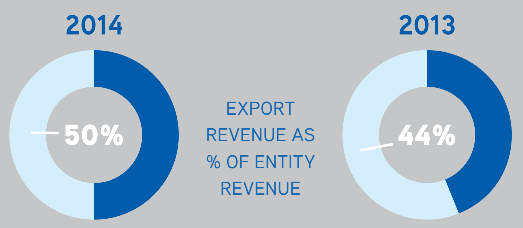
- High-end technology and engineering capabilities to take complex systems and products through their entire lifecycle, providing product and logistic support, including qualification, maintenance, upgrades and eventual decommissioning, as required, i.e.:
  - The development of the "Badger" family of new generation infantry combat vehicles, under project Hoefyster;
  - Utilising state-of-the-art, modular combat turret variants, equipped with home-grown GI-30 rapid-fire cannon (30mm CamGun) and 60mm breech-loading long-range mortar systems; and
  - Integrating the Ingwe anti-tank missile system into the anti-tank variant of the 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;
- Mechem utilises a range of technologies, services and products in the ERW clearance applications. The technologies employed include manual demining, battle area clearance, stockpile destruction and explosive ordnance disposal, vehicle-mounted demining, mechanised demining, landmine surveys, range clearance, quality assurance and victim assistance;
- The MEDDS, a unique remote scent detection capability, used in the identification of mines, explosives, drugs and other contraband, significantly improves the success of detecting banned and dangerous substances; and
- The design and manufacturing of mine-protected vehicles, e.g. Casspir.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- The SA Army placed an order for the delivery of 238 Badger systems on DLS. This contract is significant for the sustainability of some of the landward capabilities in DLS, as well as in the SA defence industry;
- The acceptance of major milestones reached on the AV8 turret system contract with the client, contributed to an exceptional sales performance by DLS;
- A substantial order from a Middle Eastern country for the delivery of 60mm long-range mortar systems resulted in significant export business. Two-thirds of the order, originally scheduled to be delivered in October 2014, was successfully shipped during March 2014;
- The SA Army delivered thousands of R4 assault rifles at DLS for maintenance and repair;
- Mechem completed 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 countries and their citizens in returning their lives to normality;
- The new generation Casspir vehicle (Casspir NG2000) has created a great deal of interest, especially in the African market. A significant number of these vehicles have been sold in African countries during 2014; and
- Entered into new contracts with UN humanitarian organisations in Somalia.

DENEL DYNAMICS

DD has proven itself as an innovative leader in advanced systems technology. The core business covers tactical missiles and precision-guided weapons. Designs, develops and manufactures competitive tactical UAVs and high-speed target systems. 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. Develops satellite systems for the SA Government and international clients.



	2014 Rm	2013 Rm	%
Revenue	1 357	999	36
Export revenue	684	442	55
EBIT	142	21	>100

872 EMPLOYEES

2014	2013	2012
3	3	3

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- 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, Ingwe Portable Launch System, precision-guided munitions and the Raptor II stand-off weapons;
- The UAVS include Seeker 200, Seeker 400 and Skua high-speed target drone systems, as well as Hungwe UAV currently under development;
- The system integration includes a ground-based air defence system. The air defence system provides an advanced, integrated air defence capability based on proven products; and
- Develops satellite systems for the SA Government and also for international clients through Spaceteq.

KEY HIGHLIGHTS AND ACHIEVEMENTS

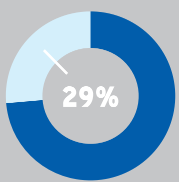
- Successful product testing and demonstrations:
  - The first Umkhonto ground-based launcher and extended range firing conducted during October 2013 performed within specifications;
  - Seeker 400 maiden flight - the Seeker 400 team successfully conducted a series of flight tests of the system, over a three-week period and achieved the critical design review;
  - The Hungwe UAV team conducted a series of successful tests on the system, the first time that the team flew the system with the ground station, autopilot and the flight management unit fully engaged; and
  - Spaceteq, operational as of July 2013, successfully concluded a contract for the initial phase of the EO-Sat 1 satellite development;
- Created a computer-aided design (CAD) learnership programme. The aim is to generate a constant supply of mechanical draughts persons that are suitable to be employed in the high-tech Denel development environment;
- The development of the A-Darter missile is on track for production to commence in 2015. Final missile qualification and performance validation is under way to achieve technical milestones;
- Strengthened strategic relationship with Brazilian colleagues during successful visits by the Brazilian Ministers of Science and Technology and Defence. These engagements may lead to the future joint development of different variants of missiles; and
- Engineering interns made radical progress towards potential participation and contribution to defence engineering industry in SA with their design and development of a smart grenade and launcher.

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. 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.

PRETORIA METAL PRESSINGS

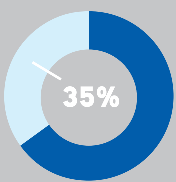
PMP is an integrated manufacturer of small- and medium-calibre ammunition and technology-related products for military and commercial use. PMP's products are widely used by many customers, including the SANDF, the SAPS and other security agencies, locally and abroad. These include small- and medium-calibre ammunition for soldiers, air defence systems, fighting vehicles, helicopters, fighter aircraft and navy vessels. 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.

2014



EXPORT REVENUE AS % OF ENTITY REVENUE

2013



	2014 Rm	2013 Rm	%
Revenue	515	531	(3)
Export revenue	150	185	(19)
EBIT	7	-	>100

1 049 EMPLOYEES

2014	2013	2012
3	3	4

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

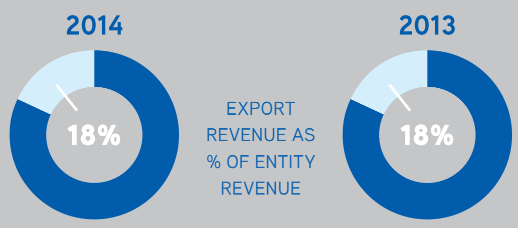
- Small-calibre ammunition ranging from 5.56mm to 12.7mm and medium-calibre ranges of ammunition from 20mm to 35mm that conform to international military standards;
- Percussion caps of all types, as well as links for various small- and medium-calibre rounds;
- Power cartridges, rocket motors and canopy 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, with the remainder of the brass strip sold to the SA commercial market; and
- 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 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

- After completing the design qualification of the 30x173mm PRAC-T, APCI-T and SAPHEI-T rounds in 2012, the industrialisation of the PRAC-T round was completed in March 2014 with 16 000 rounds being delivered to the SANDF;
- Good progress was made with the development of a hardened 30x73mm cartridge case for use in the Bushmaster weapon;
- A co-operation agreement was entered into with NAMMO (Sweden) for utilising their 30x173mm APFDS-T projectiles and 12.7mm multipurpose projectiles in PMP ammunition;
- Progress has been made in assisting NEOPUP marketing with the industrialisation of the 20x42mm PAW weapon; and
- PMP's safety record remains excellent with the lost time injury frequency rate (LTIFR) at end March 2014 at 0.15 (2012/13: 0.22), keeping PMP amongst the top 5% of 'safe' businesses in the world.

DENEL AVIATION

DAv is the OEM of the Rooivalk combat support helicopter and design authority of the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft. DAv is an accredited and certified provider of aircraft 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 apprenticeship training in several trades to advanced and aircraft type training.



	2014 Rm	2013 Rm	%
Revenue	1 000	1 048	(5)
Export revenue	176	187	(6)
EBIT	66	39	69

726 EMPLOYEES

2014	2013	2012
2	3	3

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

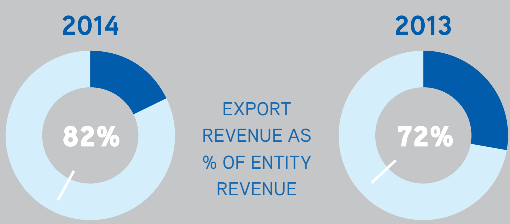
- Eurocopter-accredited MRO service centre for Super Puma AS332, Puma SA330, Squirrel AS350 and Bo105 helicopters;
- Primary MRO provider for the SAAF Oryx and Rooivalk helicopters with responsibility for continued aircraft airworthiness;
- Rooivalk OEM, Oryx and Cheetah design authority and comprehensive MRO engineering support, upgrade solutions, systems integration, 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;
- Provides advanced and type training through DTA, as well as 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; and
- Approved by the South African Civil Aviation Authority (SACAA), the European Aviation Safety Agency (EASA) and the Aircraft Maintenance Organisation (AMO) for civil registered aircraft.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- The SAAF Rooivalk was deployed successfully to the Central African Great Lakes area and made a significant impact on the peace enforcement in the region;
- Renewal of multi-year orders for the SAAF base-load platforms of Oryx, Rooivalk and C-130;
- Increased level of MRO services regarding the SAPS helicopter fleet;
- The total complement of DTA apprentices is 238 spanning the different trades and disciplines with 92% of the local intake from the designated groups;
- DTA is seen as a world-class training centre with the conclusion of an export contract for training of non-SA artisans over the next three years; and
- Contract by the TNPA to provide specialist skills in support of the TNPA operation as per Civil Aviation Regulation Part 91.

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.



	2014 Rm	2013 Rm	%
Revenue	438	262	67
Export revenue	361	189	91
EBIT	(44)	(46)	4

419 EMPLOYEES

2014	2013	2012
2	3	4

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

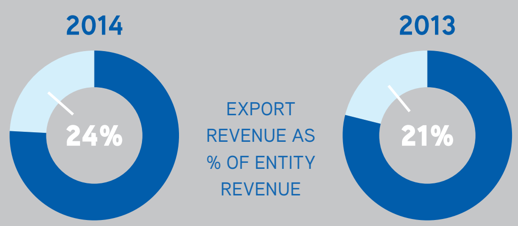
- The design, qualification, industrialisation, detail manufacture and assembly of the Airbus A400M WFF, TS and vertical tail plane RSS;
- The manufacture and assembly of the empennage for the Gulfstream G150 aircraft;
- The manufacture and supply of winglets for a US business jet; and
- Providing engineering support to other Denel entities, parts manufacture for the Rooivalk combat support helicopter programme and Seeker 400 UAVS design support.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Awarded a new work package from Airbus on the cargo hold system of the A400M, value equates to approximately R339m. Industrialisation for this work package will commence during 2014;
- Doubled WFF and TS production rate from 8 ship sets in 2012/13 to 16 ship sets in 2013/14 with successful on-time, on-quality deliveries to the customer;
- Retained international Nadcap accreditations in non-destructive testing, composites, chemical processing and heat treatment. The entity also achieved AS9100C accreditation; and
- Launched a mentorship programme where a selected group of employees were mentored by senior leadership within the organisation through a formal programme.

DENEL OVERBERG TEST RANGE

OTR is a versatile missile and aircraft test range 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.



	2014 Rm	2013 Rm	%
Revenue	109	85	28
Export revenue	27	18	50
EBIT	17	4	>100

156 EMPLOYEES

2014	2013	2012
3	3	4

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

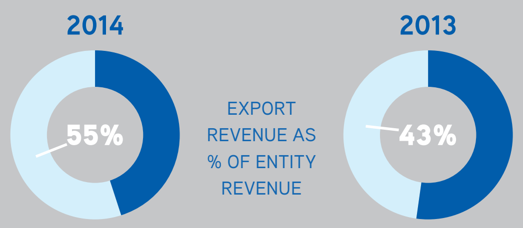
- Flight tests on sophisticated missile, rocket, bomb and guided munitions systems;
- Evaluation and measurement of aircraft performance, avionic system evaluation, carriage and release clearance of ordnance and other payloads;
- Measurement of trajectories of all types of bombs, as well as other guided and unguided munitions;
- Execution of anti-tank tests, helicopter-based tests, and electronic warfare tests; and
- Mobile telemetry launch support services in remote locations for space missions, as well as operating a ground station for the transfer of data to and from satellites.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Provided essential support during the successful testing of Denel's extended-range Umkhonto surface-to-air-missile;
- Participated in tests on the Al-Tariq development programme;
- Provided in-flight test services to the SANDF in terms of a multi-year contract with the DoD&MV;
- Conducted international test campaigns for European and Southeast Asia clients, involving testing of advanced ground-to-air missile and stand-off missile systems, as well as an unqualified UAVS;
- Provided remote telemetry support from New Zealand, French Guiana and Gabon during the ATV4, VEGA and Space X launch missions;
- Reached an important technical milestone when a key renewal project, the replacement of the tracking radar main system computer, was accepted for implementation after more than a decade of development; and
- Maintained its ISO9001:2008 and ISO14001:2004 certification, which underlines its commitment to quality service delivery within environmental management principles.

LMT HOLDINGS

LMT offers protected mobility solutions to local and international clients in the defence and security industries. These include the full lifecycle of design and development, manufacturing and after-sales support of complete systems, subsystems and components. As such, LMT operates on level 2 to 5 of the systems hierarchy and in acquisition (all baselines) and maintenance activities of the system lifecycle.



	2014 Rm	2013 Rm	%
Revenue	110	74	49
Export revenue	60	32	88
EBIT	4	6	(33)

135 EMPLOYEES

2014	2013	2012
5	5	6

B-BBEE LEVEL STATUS

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

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- LMT develops intellectual property unique to ballistic, landmine and improvised explosive devices (IEDs) protection and the integration of these protection technologies into armoured vehicles, and has the ability to design and manufacture mine-protected vehicles with value add to clients with, amongst others, flat or semi-flat floor mine protection. Vehicles with this technology are generally lower and more spacious than vehicles with a conventional V-hull design. Height and space (the derived parameter of mass) are key drivers in the design of protected mobility vehicles;
- Capability is key to the success of project Hoefyster, as the Badger vehicle is fitted with flat floor technology, designed and qualified by LMT; and
- Supplied more than 150 armoured cabs to Mercedes Benz. The new HMHP AV92 vehicle is developed in-house by LMT.

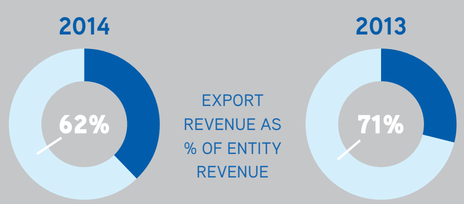
KEY HIGHLIGHTS AND ACHIEVEMENTS

- Order to supply more than 400 vehicles to a Middle Eastern client. The order is made up of four different projects each with a different product design to be manufactured; and
- These new products will expand LMT's product portfolio and will open up marketing opportunities to sustain forecasted revenue growth.

ASSOCIATED COMPANIES

RHEINMETALL DENEL MUNITION (PTY) LTD

RDM (49% shareholding) specialises in the design, development 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, South Africa, other African countries and Europe via Rheinmetall AG.



	2014 Rm	2013 Rm	%
Revenue	1 442	1 295	11
Export revenue	897	922	(3)
EBIT	110	123	(11)

1 783 EMPLOYEES

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

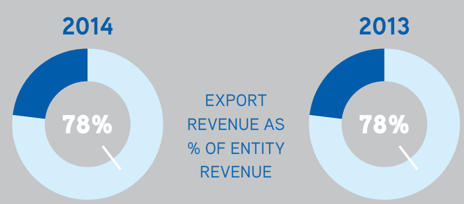
Its product portfolio includes large-calibre ammunition (76mm to 155mm), artillery projectiles, propellant, charges, pyrotechnic carriers, mortar bombs, 40mm grenades, rocket motors, safety and arming devices and various missile subsystems. Plant engineering for various filling and lapping facilities is also part of the product portfolio.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Continuous upgrade and modernising of RDM facilities with positive results on safety, environment and productivity with a decrease in maintenance cost. Successful refurbishment of two 1 000 tons presses and four CNC machines at the Boksburg site;
- 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 AG with the first order for 81mm series production received; and
- RDM remains the centre of excellence in Rheinmetall AG and Denel for all 60mm, 81mm and 120mm mortar, as well as 155mm artillery systems worldwide.

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.



	2014 Rm	2013 Rm	%
Revenue	545	384	42
Export revenue	424	301	41
EBIT	29	18	61

287 EMPLOYEES

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

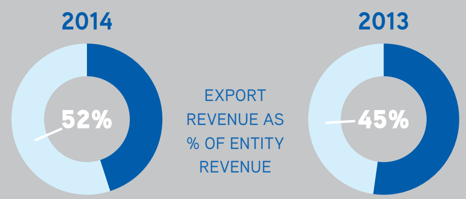
The company's main activities include the supply of optical sensors, optical head-trackers, laser rangefinders, as well as targeting surveillance and sighting systems, to a spectrum of domestic and international defence and security customers.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Continuous improvements in LEAN manufacturing efficiencies;
- Certification according to EN9100:2009 for design and manufacture of products for airborne applications maintained; and
- Certified by the SACAA for design and manufacturing capabilities.

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 more than 50 years' experience of co-operation 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 turbine-shaft engines. In military aviation, 75% of SA turbine helicopters are fitted with TMA turbo-shaft engines like Oryx, Rooivalk and A109 LUH.

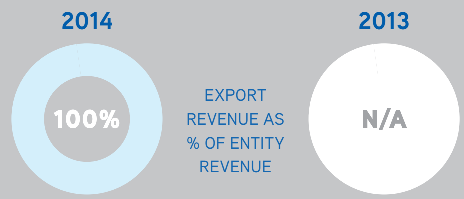


	2014 Rm	2013 Rm	%
Revenue	459	394	16
Export revenue	239	177	35
EBIT	61	83	(27)

291 EMPLOYEES

TAWAZUN DYNAMICS LLC

Tawazun Dynamics (49% shareholding) is a UAE-based, global supplier of precision-guided munitions. The entity is an associated company of Denel as of 1 April 2013 and is in the early start-up phase of the business.



	2014 Rm	2013 Rm	%
Revenue	1	-	N/A
EBIT	(37)	-	N/A

The functional currency is AED. Results reflected are converted at R1=0.3473AED

58 EMPLOYEES

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

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

KEY HIGHLIGHTS AND ACHIEVEMENTS

- 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; and
- The integration of heat treatment and surface treatment by mid-2013 and the integration of shot peening and laser inspection in 2013/14 allow TMA to raise its profile in manufacturing and MRO parts repair.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

The company's main activities are to install, sub-assemble, manufacture, as well as maintain and provide spare parts for precision-guided munitions for a spectrum of domestic and international defence and security customers.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Reached facility readiness and started the first production activities during the year under review;
- Secured a six-year contract with a value of R5bn to manufacture precision-guided munitions; and
- Working towards ISO9001 certification as well as certification from Abu Dhabi Environmental Health and Safety Centre which is intended to be in line with ISO14001 for environmental management and ISO18001 for OHS.

CORPORATE GOVERNANCE

PART FOUR

DENEL BOARD OF DIRECTORS

THE BOARD IS RESPONSIBLE FOR STRATEGIC DIRECTION AND OVERSIGHT OF THE COMPANY

ZOLI KUNENE (61)

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: 31 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 (51)

Executive national security programme (joint staff course/ SANDF), Brigadier General (Ret.), senior command and staff course (SAAF), junior command 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: Chairman of LMT, non-executive director of Aerospace Maritime and Defence Industries Association (AMD) and RDM. Former CEO of a number of defence companies, including Metatek, Grintek Integrated Defence Solutions, 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. Former member of 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 (45)

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

OTHER DIRECTORSHIPS: Non-executive director of RDM, Tawazun Dynamics, Cassidian Optronics, DAe, LMT and Densecure SOC Ltd, 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.

ADV GHANDI BADELA (55)

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.

GERT CRUYWAGEN (58)

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 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, group director of risk of Tsogo Sun Holdings and lead independent non-executive director or Accelerate Property Fund Ltd. 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 JV RENSBURG (57)

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 (RSA). Non-executive member of the Africa Credit Committee of First Rand Bank (specialised and project finance). Former chairman of Johannesburg Water, and the Namibian operations of the NMI Group, former non-executive director of ACSA (Airports Company of SA), NMI Group, 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.

PROF TSHILIDZI MARWALA (42)

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

DENEL BOARD COMMITTEE MEMBERSHIPS:
Member of board

OTHER DIRECTORSHIPS: Non-executive director of EOH Ltd and Mikovhe Iron Ore and shareholder in MTN.

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

ZIPHOZETHU MATHENJWA (37)

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

DENEL BOARD COMMITTEE MEMBERSHIPS:
Member of audit and risk committee

OTHER DIRECTORSHIPS: Non-executive director of Umgeni Water Board, TMA, Mitsui & Co African Rail Solutions, Sinafuthi Group, Insika Foundation and chairman of the audit committee, Department of Economic Development Environmental and Tourism in Mpumalanga province.

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

NKOPANE MOTSEKI (48)

Certificate in Forensic Investigations and Crime Intelligence and attended various intelligence courses

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS:
Member of board

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.

ADV MELISSA NTSHIKILA (41)

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 and Administration.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Human resources, labour law expertise and labour relations, negotiations skills, as well as legal.

BULELWA PALEDI (43)

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 of Ndamase Incorporated and non-executive director of ICC (DBN).

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

MATODZI RATSHIMBILANI (40)

B Proc, 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 at Tshisevhe Gwina Ratshimbilani Inc and chairman of Railway Safety Regulator. Non-executive director of TMA.

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

MAVUSO MSIMANG (72)

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, Tourism Business Council of SA, Delphini and WWP-Memeza Holdings. Deputy chairman of Save the Children SA; non-executive director of African Parks Networks Corruption Watch (RF) NPC; Peace Park Foundation, Harmony Gold Mining, Superflex Limited, Investment Solutions and Investment Solutions Unit Trust. Trustee 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 (52)

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 board

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 (67)

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 and Deputy Dean for Research and Post-Graduate Studies in the Faculty of Economic and Management Sciences at the University of Pretoria.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Professor, expert in employment equity and gender in organisations, talent development, human resources and operations director, as well as higher education management.

DENEL EXECUTIVES

THE EXECUTIVES ARE RESPONSIBLE FOR OVERSEEING THE DAY-TO-DAY MANAGEMENT OF THE GROUP'S AFFAIRS, EXECUTING THE DECISIONS OF THE BOARD, STRATEGY DEVELOPMENT AND FINANCIAL PERFORMANCE.

RIAZ SALOOJEE (51)

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to audit and risk, personnel, remuneration and transformation, and social and ethics committees

DIRECTORSHIPS: Chairman of LMT, non-executive director of Aerospace Maritime and Defence Industries Association (AMD) and RDM. Former CEO of a number of defence companies, including Metatek, Grintek Integrated Defence Solutions, 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. Former member of 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 (45)

EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to audit and risk, personnel, remuneration and transformation, and social and ethics committees

DIRECTORSHIPS: Non-executive director of RDM, Tawazun Dynamics, Cassidian Optronics, DAe, LMT and Densecure SOC Ltd, 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

JAN WESSELS (55)

GROUP CHIEF OPERATIONS OFFICER

BEng(Hons) Electronics, Advanced Management Diploma

DIRECTORSHIPS: Non-executive director of Tawazun Dynamics.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Held various management positions, leading business development and programmes execution activities. Former CEO of DD.

Appointed to the group executive committee in May 2013

STEPHAN BURGER (56)

CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS

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

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

NATASHA DAVIES (42)

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION

MCom (Business Management), BCur(Hons)

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to personnel, remuneration and transformation, and social and ethics committees

DIRECTORSHIPS: Chairman of technology and human resources for industry programme (THRIP), trustee member of Denel Retirement Fund (DenRet) and Denel Medical Benefit Trust (DMBT), as well as non-executive director of LMT.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Leadership, business management experience; accomplished in all areas of the HR value chain; transformation and change management.

Appointed to the group executive committee in July 2013

ISMAIL DOCKRAT (44)

CHIEF EXECUTIVE OFFICER: DENEL AEROSTRUCTURES

MBA, Certificate in Programme Management, NDip Electronics Engineering

DIRECTORSHIPS: Previous non-executive director of DAe and TMA. Former CEO of DAv, 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 (45)

CHIEF EXECUTIVE OFFICER: DENEL AVIATION

Masters in Aeronautical Maintenance and Production Management and Executive Leadership Programme

DIRECTORSHIPS: Non-executive director of TMA. Non-executive director of Commercial Aviation Association of SA.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Business management, engineering and project management.

Appointed as chief executive officer in March 2010

TSEPO MONAHENG (50)

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

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

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Leadership, strategy, business development and programme management. Former deputy CEO of DD.

Appointed as chief executive officer in May 2013

ZWELAKHE NTSHEPE (56)

GROUP EXECUTIVE: BUSINESS DEVELOPMENT AND CORPORATE AFFAIRS

Post-graduate Diploma in Management Studies, MBA

DIRECTORSHIPS: Former non-executive director of Cassidian Optronics, stockbroker in New York and 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

PHALADI PETJE (48)

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

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

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Strategic planning, business development and business process re-engineering. Former deputy CEO of PMP.

Appointed as chief executive officer in May 2013

ABRIE VAN DER WALT (55)

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

MSc (Computer Science) and Executive Leadership Programme

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Business management and executive leadership experience.

Appointed as chief executive officer in December 2005

ABDUL CARIM (48)

DEPUTY CHIEF EXECUTIVE OFFICER: DENEL AVIATION

BCom, BAcc, CA(SA)

DIRECTORSHIPS: Non-executive director of DAe and held various CFO roles in government and other SOEs before joining Denel.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Financial management, financial reporting and management accounting.

Appointed as deputy chief executive officer in July 2012

ELIZABETH AFRICA (53)

GROUP COMPANY SECRETARY

BAdmin, Company Secretary Studies and Executive Development Leadership Diploma

DIRECTORSHIPS: Trustee of DenRet and member of Ethics Institute of SA

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Experience in Company's Act; King III; Corporate Governance, JSE and 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 (38)

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 (56)

GROUP SUPPLY CHAIN EXECUTIVE

BCom, Diploma in Production Management, Certified Balanced Scorecard Specialist, SHEQ training and executive management training

DIRECTORSHIPS: Former director of Ntsukumani (Pty) Ltd and executive member of the State-owned Entity Procurement Forum

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Business processes design and optimisation, strategy formulation and implementation, supply chain management, corporate governance, risk and business management.

Appointed as group supply chain executive in October 2012

THEO KLEYNHANS (53)

DEPUTY CHIEF EXEUTIVE OFFICER AND CHIEF OPERATIONAL OFFICER: DENEL AEROSTRUCTURES

BEng (Electronics), MBA and ELP

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Engineering, operations and business management and executive leadership experience.

Appointed as deputy chief executive officer and chief operations officer in July 2012

MXOLISI MAKHATINI (42)

DEPUTY CHIEF EXEUTIVE OFFICER: DENEL LAND SYSTEMS

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

DIRECTORSHIPS: Former chairman of the AMD marketing workgroup.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Specialist experience in the design of control systems, manufacturing, programme and business management, business development and marketing.

Appointed as deputy chief executive officer in July 2012

VUYELWA QINGA (50)

GROUP COMMUNICATION MANAGER

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

DIRECTORSHIPS: Council member of UP and director of Cygniline (Pty) Ltd

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Strategic leadership, corporate communication, media relations, image and reputation management and stakeholder engagement.

Appointed as group communication manager in May 2013

THEMBA ZWELIBANZI (50)

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, trustee of DMBT, AMD Arms Control work group member, and council member of SACCI and Densecure SOC Ltd board member.

RELEVANT SKILLS, EXPERTISE, AND EXPERIENCE: Risk management, corporate governance, change management and negotiations skills.

Appointed as risk and compliance manager in June 2006

HOW WE ARE GOVERNED

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, designed in accordance with best practice 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 group chief executive officer (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 embedded 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.

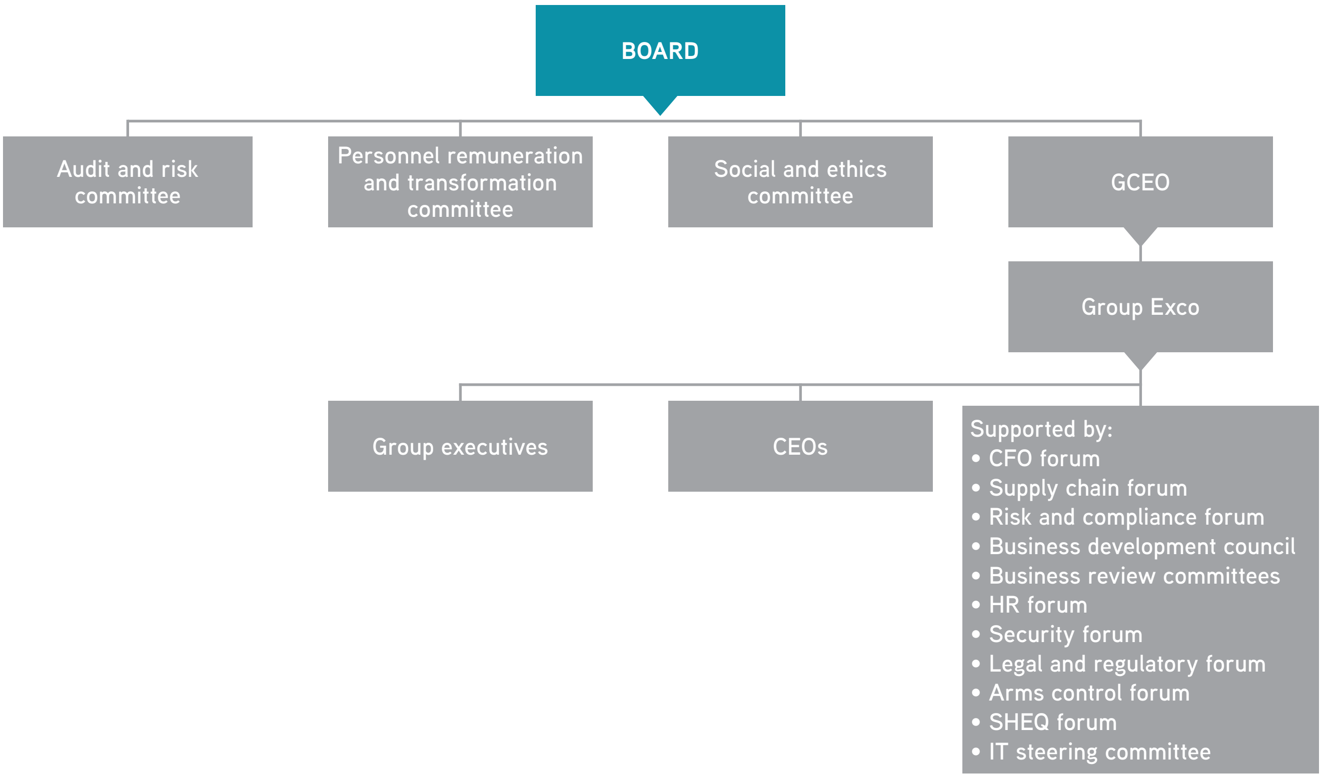
RESPONSIBILITY AND ACCOUNTABILITY

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.

The governance structure is as follows:

- The 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 group executive committee (EXCO), inclusive of group executives and business unit chief executive officers (CEOs), addresses critical and material business issues; and
- Business unit EXCOs deal with operational issues and elevate specific matters to group EXCO.

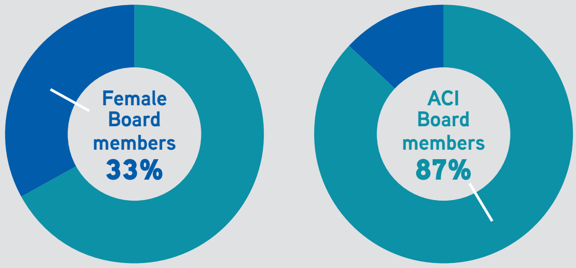
A schematic illustration of the governance structure is depicted below:



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

In terms of Denel's Memorandum of Incorporation (MOI), the shareholder appoints the chairman, GCEO and non-executive directors. The remaining executive director is appointed by the board with the approval of the shareholder.

The shareholder reviews the composition of the board on an annual 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 subject to annual review and confirmation by the shareholder at the annual general meeting. Retiring non-executive directors are eligible for re-appointment and their retirement is staggered to ensure continuity. The executive directors comprise the GCEO and group financial director (GFD), who both have five-year contracts.

The shareholder takes cognisance of the group's needs in terms of skills, experience, diversity, size of the company and demographics in appointing the non-executive directors. Details of all board members can be found on pages 46 to 49.

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, legislation governing their appointment, 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 5% increase for the non-executive directors at the July 2013 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 on pages 62 to 64.

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

The areas that are assessed as part of the effectiveness review include:

- Board size and composition;
- Independence;
- Terms of reference;
- Agenda and meeting preparation;
- Board meetings;
- Board functioning and processes;
- Board committees;
- Leadership and support;
- Board effectiveness and evaluation; and
- Board orientation and development.

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 board effectiveness review is done to ensure continual improvement of the board, as well as ensuring that governance best practice is applied.

The 2013/14 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 2014/15 will be discussed at the AGM scheduled for 15 August 2014.

MANAGING CONFLICT OF INTEREST

The board subscribes to the principle of effective management of conflicts of interest and that fundamental conflicts should be avoided. At each board and subcommittee meeting, directors declare their interests regarding any agenda item to prevent personal interests of a director taking precedence over those of the company. In addition, directors' interests are declared by the individual directors in a register which is presented to the shareholder at every AGM for consideration. Board members who have personal interests in a matter under discussion disclose their interests and recuse themselves from the meeting. For the period under assessment directors declared that they had no interests regarding any of the agenda items tabled at either the board or committee meetings. 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 include 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 some of the exhibitions 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 advisors, should the need arise.

BOARD MEETINGS

The board has four scheduled meetings annually, in addition to the AGM. Special board meetings are also held as the need arises. 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 for the period 1 April 2013 to 31 March 2014:

MEMBER	BOARD MEETINGS								AGM
	TOTAL	SPECIAL 15 APR 13	24 JUN 13	16 SEP 13	STRATEGY 21 NOV 13	22 NOV 13	20 FEB 14	SPECIAL 24 MAR 14	19 JUL 12
Mr NR Kunene (Chairman)	7/7	√	√	√	√	√	√	√	√
Mr R Saloojee	6/7	√	√	√	√	√	√	A	√
Adv G Badela	7/7	√	√	√	√	√	√	√	√
Dr GC Cruywagen	6/7	√	√	√	√	√	√	A	√
Ms MJ Janse van Rensburg	6/7	√	√	√	√	√	A	√	√
Prof T Marwala	3/7	√	√	√	A	A	A	A	√
Ms ZB Mathenjwa	7/7	√	√	√	√	√	√	√	√
Mr F Mhlontlo	6/7	A	√	√	√	√	√	√	√
Mr NJ Motseki	7/7	√	√	√	√	√	√	√	A
Mr M Msimang	6/7	√	√	√	√	√	√	A	√
Mr BF Ngwenya	7/7	√	√	√	√	√	√	√	√
Prof SM Nkomo	6/7	√	√	A	√	√	√	√	√
Adv MS Ntshikila	7/7	√	√	√	√	√	√	√	√
Ms B Paledi	6/7	√	√	√	√	√	L	√	L
Mr MV Ratshimbilani	6/7	√	√	√	√	√	√	A	√

A Apology
L Special leave from board activities due to appointment as acting judge

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 Publlic Finance Management Act, no. 1 of 1999 (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 personnel remuneration and transformation (PR&T) committee, and the social and ethics (S&E) committee. All the 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 best practice in corporate governance.

In line with the company's MOI, the A&R committee meets four times a year and the other board committees at a minimum meet three times a year. Executives are regular attendees at the board committee meetings in line with their roles and responsibilities.

The minutes of the committee meetings, including the chairpersons' reports 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, with the executive directors as standing invitees to the committee meetings. Members of the committee have considerable financial and risk management, commercial and legal experience necessary to oversee and guide the board. These include the audit and risk functions, corporate governance, the governance of risk, and information technology (IT) risk. The appointment of members of the A&R 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 A&R committee on page 104 and include the following:

- Reviewing the integrated report, including consolidated annual financial statements, and considering 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 internal auditors, and the GFD to consider the audit plans, the scope, and status of the audits and progress on resolving significant issues.

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 chief financial officers (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 A&R committee also meets with the internal and external auditors without the presence of management to enhance independence.

The A&R committee is also responsible for monitoring the combined assurance model detailing significant business processes, line management monitoring, internal audit and external assurances, as well as audits performed by regulators. 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 above. Refer to the report of the A&R committee on pages 100 to 101.

Attendance at A&R committee meetings for the period 1 April 2013 to 31 March 2014:

MEMBER	AUDIT AND RISK COMMITTEE MEETINGS			
	TOTAL	14 JUN 13	14 OCT 13	13 FEB 14
Ms MJ Janse van Rensburg (Chairman)	3/3	√	√	√
Dr GC Cruywagen	3/3	√	√	√
Mr BF Ngwenya[1]	1/1	√	-	-
Ms B Paledi	1/3	√	L	L
Ms ZB Mathenjwa[2]	2/2	-	√	√
STANDING INVITEES				
Mr R Saloojee	3/3	√	√	√
Mr F Mhlontlo	3/3	√	√	√

A Apology
L Special leave from board activities due to appointment as acting judge
1 Resigned 22 July 2013
2 Appointed 22 July 2013

SOCIAL AND ETHICS COMMITTEE

The S&E committee comprises only independent non-executive directors, including the chairman who is confirmed at every AGM. The executive directors are standing invitees to committee meetings and relevant EXCO members attend the committee meetings by invitation. External experts as proposed in the regulations are nominated and appointed by the board to the committee as and when necessary.

The committee advises the board on good corporate citizenship and ethical relationships, and report to the board and the shareholder on the group's commitment in this regard. The committee's terms of reference are reviewed and updated annually and its responsibilities include:

- Evaluating policies and measures in place to prevent fraud and corruption;
- Reviewing the corporate social investment (CSI) strategies and progress thereon;
- Evaluating the stakeholder engagement model, monitoring the status and from time to time assessing effectiveness;
- Reviewing the transformation strategies, progress on initiatives and improvement plans; and
- Reviewing occupational health and safety (OHS) policies and monitoring effectiveness.

The committee has an annual work plan and at its meeting held on 12 June 2014 ensured that the committee met all monitoring and reporting responsibilities within the annual cycle. The committee further considered the company's corporate and social investment, transformation and ED initiatives, OHS, stakeholder management, as well as the ethics policy.

Attendance at S&E committee meetings for the period 1 April 2013 to 31 Match 2014:

MEMBER	SOCIAL AND ETHICS COMMITTEE MEETING						
	TOTAL	4 APR 13	SPECIAL 1 OCT 13	23 OCT 13	SPECIAL 4 NOV 13	SPECIAL 20 NOV 13	11 FEB 14
Prof SM Nkomo (Chairman)	6/6	√	√	√	√	√	√
Dr GC Cruywagen	4/6	√	√	√	A	A	√
Mr M Msimang	6/6	√	√	√	√	√	√
STANDING INVITEES							
Mr R Saloojee	2/3	√	-	A	-	-	√
Mr F Mhlontlo	2/3	√	-	A	-	-	√

A *Apology*
\- *In-committee*

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

Denel has a committee that oversees personnel, 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 management, and for setting appropriate remuneration;
- Overseeing the group's performance in respect of EE, transformation and staff development, taking into consideration the legal requirements and monitoring of targets set by the company; and
- Overseeing the skills development and retention of critical skills and talent.

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.

Details of the company's EE practices and performance during the year, as well as the challenges in this regard, are provided in the people management section on pages 76 to 81.

The performance of each executive is assessed relative to the prevailing business climate and market conditions, as well as 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 on pages 62 to 64.

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 2013/14 financial year, as detailed below:

MEMBER	PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE MEETINGS				
	TOTAL	13 JUN 13	23 OCT 13	11 FEB 14	SPECIAL 3 MAR 14
Prof SM Nkomo (Chairman)	4/4	√	√	√	√
Adv G Badela	2/4	√	√	A	A
Adv MS Ntshikila	4/4	√	√	√	√
Mr MV Ratshimbilani	4/4	√	√	√	√
STANDING INVITEES					
Mr R Saloojee	3/4	√	√	√	A
Mr F Mhlontlo	3/4	√	√	√	A

A Apology

EXECUTIVE COMMITTEE

The EXCO is chaired by the GCEO and includes all business unit CEOs as detailed on pages 50 to 53. 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, and reviews of the group's values, safety performance, operations, and financial performance. The committee meets on a monthly basis.

Attendance at EXCO meetings for the period 1 April 2013 to 31 March 2014:

MEMBER	EXCO MEETINGS											
	TOTAL	23 APR 13	SPECIAL 13 MAY 13	4 JUN 13	SPECIAL 25 JUN 13	SPECIAL 8 JUL 13	WORK SESSION 6 AUG 13	WORK SESSION 7 AUG 13	SPECIAL 22 AUG 13	26 SEP 13	28 OCT 13	28 FEB 14
Mr R Saloojee	10/11	√	√	√	√	√	√	√	A	√	√	√
Mr F Mhlontlo	10/11	√	A	√	√	√	√	√	√	√	√	√
Mr JV Morris[1]	8/9	√	√	√	√	A	√	√	√	√	-	-
Mr VM Ngidi[2]	-/1	S	-	-	-	-	-	-	-	-	-	-
Mr ZN Ntshepe	6/11	A	√	A	√	A	√	√	A	A	√	√
Maj Gen O Schür[3]	1/1	√	-	-	-	-	-	-	-	-	-	-
Mr S Burger	10/11	√	√	√	√	A	√	√	√	√	√	√
Mr I Dockrat	10/11	√	√	√	√	√	√	√	√	√	A	√
Mr M Kgobe	11/11	√	√	√	√	√	√	√	√	√	√	√
Mr A van der Walt	9/11	√	A	√	A	√	√	√	√	√	√	√
Mr JM Wessels[4]	11/11	√	√	√	√	√	√	√	√	√	√	√
Mr C Wolhuter[5]	1/1	√	-	-	-	-	-	-	-	-	-	-
Ms N Davies[6]	8/11	√	A	A	√	A	√	√	√	√	√	√
Mr T Monaheng[7]	10/10	-	√	√	√	√	√	√	√	√	√	√
Mr P Petje[7]	8/10	-	A	√	A	√	√	√	√	√	√	√

A Apology
S Sick leave
1 Resigned 30 September 2013
2 Passed away 27 April 2013
3 Resigned 30 April 2013
4 Appointed as Group COO 1 May 2013
5 Retired 31 October 2013
6 Acted since February 2013 and appointed 1 July 2013
7 Appointed 1 May 2013

CODE OF ETHICS

Denel has strengthened policies and processes to ensure employees have clear guidance to make ethical choices and understand the due diligence required in all business decisions. Denel's code of ethics was updated during the year and sets clear expectations for directors, employees, suppliers and clients. Regular awareness training regarding the code and our ethical standards helps us to embed a culture of responsible business conduct throughout the company. The board and the top 100 leaders in Denel attended an ethics course facilitated by the Ethics Institute of SA, which included practical guidance to help employees deal with important ethical issues.

Denel aims to communicate openly and transparently with stakeholders regarding our approach to responsible business conduct. The group has an independently-operated whistle-blowing mechanism that is operated by an independent organisation. External stakeholders have also been made aware of the company's ethics policy and hotline, via our procurement and legal departments. For more detail on fraud prevention and related issues, refer to page 68.

Ethics matters are monitored and reported to both the A&R and the S&E committees.

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, which 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 A&R committee and to the chairman of the board, and regularly report to the A&R committee. The board is confident that the internal auditors have discharged their duties fully in terms of the internal audit charter.

BUSINESS UNITS

Denel business units follow the group policies, governance, and financial control systems, and 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 part of the group EXCO. Various forums are held regularly, e.g. the business development council, HR, CFO, COO and supply chain forums, where not only operational matters are discussed, but also topics that are relevant to executive management and the leaders of the group.

REMUNERATION REPORT

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

- Demonstrate to stakeholders that governance procedures are followed in the appointment of executive directors and senior executives of the group;
- Ensure that performance parameters of senior executives and executive directors are set and reviewed in accordance with the Shareholder's Compact;
- 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 that senior executives do not determine their own remuneration; and
- Reviews and recommends to the board for approval the performance remuneration pay-out based on the policy.

REMUNERATION

Remuneration at Denel comprises of total guaranteed remuneration packages and short-term incentives. Short-term incentive performance pay is a portion of an employee's salary package that is at risk, and is paid annually if both organisational and individual performance targets are met. Guaranteed packages are inclusive of company contributions towards retirement fund and medical aid.

EXECUTIVE REMUNERATION

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 as approved by the shareholder at the AGM averaged 5% effective 1 April 2013.

The following amounts were either paid or accrued to the executives during the year:

	FIXED REMUNERATION	COMPANY CONTRIBUTIONS	2014 TOTAL	2013 TOTAL
EXECUTIVE DIRECTORS	**R'000**	**R'000**	**R'000**	**R'000**
Mr R Saloojee	3 526	446	3 972	3 784
Mr F Mhlontlo	2 967	351	3 318	3 155
Sub Total	**6 493**	**797**	**7 290**	**7 020**
PRESCRIBED OFFICERS				
Mr JV Morris[1]	2 760	132	2 892	2 256
Mr ZN Ntshepe	1 884	210	2 094	1 881
Ms N Davies[2]	1 258	126	1 384	-
Mr JM Wessels[3]	1 677	244	1 921	-
Maj Gen (Ret.) OA Schür[4]	158	22	180	1 600
Mr VM Ngidi[5]	124	16	140	1 418
Sub Total	**7 861**	**750**	**8 611**	**7 155**
Total	**14 354**	**1 547**	**15 901**	**14 094**

1 *Resigned 30 September 2013*
2 *Appointed 1 July 2013*
3 *Appointed as Group COO 1 May 2013*
4 *Resigned 30 April 2013*
5 *Passed away 27 April 2013*

BENEFITS

Denel Retirement Fund

- Denel employees belong to the 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 retirement fund contributions.

Denel medial aid

- The mandatory company medical aid scheme is Discovery Health. Employees are exempt from underwriting or waiting periods and are able to choose a health plan based on their individual needs.

Non-financial recognition is divided into three broad categories

- Informal: these are spontaneous and implemented with minimal planning and effort;
- Awards for specific achievements and activities: these are tailored to reward specific achievements or behaviours desired most in the organisation; and
- Formal: recognition programmes used to formally acknowledge significant contributions, e.g. long service awards and specific achievement awards.

SHORT-TERM INCENTIVES

Payment of short-term incentives, referred to as performance pay, is linked to the performance of the company and the individuals. Individuals qualify for performance pay when performance targets have been exceeded based on gain share principles. The relevant performance pay pool is determined based on the excess of net profit achieved above the performance target. Other performance indicators are used to moderate the performance pay allocations.

The following short-term incentives were either paid or accrued to the executives during the year:

EXECUTIVE DIRECTORS	2014 TOTAL R'000	2013 TOTAL R'000
Mr R Saloojee	1 987	1 892
Mr F Mhlontlo	1 656	1 578
Sub Total	**3 643**	**3 470**
PRESCRIBED OFFICERS		
Mr JV Morris[1]	463	984
Mr ZN Ntshepe	983	852
Ms N Davies[2]	680	-
Mr JM Wessels[3]	900	-
Maj Gen (Ret.) OA Schür[4]	-	709
Mr VM Ngidi[5]	-	634
Sub Total	**3 026**	**3 179**
Total	**6 669**	**6 649**

1 Resigned 30 September 2013
2 Appointed 1 July 2013
3 Appointed as Group COO 1 May 2013
4 Resigned 30 April 2013
5 Passed away 27 April 2013

LONG-TERM INCENTIVES

Denel has in the past not implemented a long-term incentive scheme, despite it being provided for in the DPE remuneration guidelines. This was mainly due to financial challenges experienced by the group at the time. In the light of improving financial performance, Denel is investigating the possibility of implementing such a scheme.

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 for SOCs 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 2013, the shareholder approved a 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	2014 TOTAL R'000	2013 TOTAL R'000
Mr NR Kunene (Chairman)	773	738
Adv G Badela	200	228
Dr GC Cruywagen	310	215
Ms MJ Janse van Rensburg	283	252
Prof T Marwala	76	167
Ms Z Mathenjwa	203	128
Mr NJ Motseki	136	168
Mr M Msimang	222	147
Mr BF Ngwenya[1]	230	366
Prof SM Nkomo	354	201
Adv MS Ntshikila	226	155
Ms B Paledi	167	239
Mr MV Ratshimbilani	209	200
Ms SEN Sebotsa[2]	-	62
Total	**3 389**	**3 266**

1 *The board member's fees include costs paid of R55k for supporting business development in certain foreign countries*
2 *Resigned on 13 March 2013*

RISK GOVERNANCE

DENEL OPERATES IN A HIGHLY REGULATED CONTRACTING ENVIRONMENT AND HAS IMPLEMENTED A RISK MANAGEMENT PROCESSES THAT ENABLES MANAGEMENT TO ANTICIPATE AND EFFECTIVELY MANAGE RISKS AND OPPORTUNITIES ACROSS THE VALUE CHAIN AND CREATE VALUE FOR STAKEHOLDERS.

Denel's risk governance system has been designed to ensure effective deployment of resources, effective execution, as well as effective board monitoring and oversight. Denel has infused risk management across all business processes. Risk management ensures that the organisation can, as far as practical, be better prepared for uncertainty.

RISK GOVERNANCE PROCESS

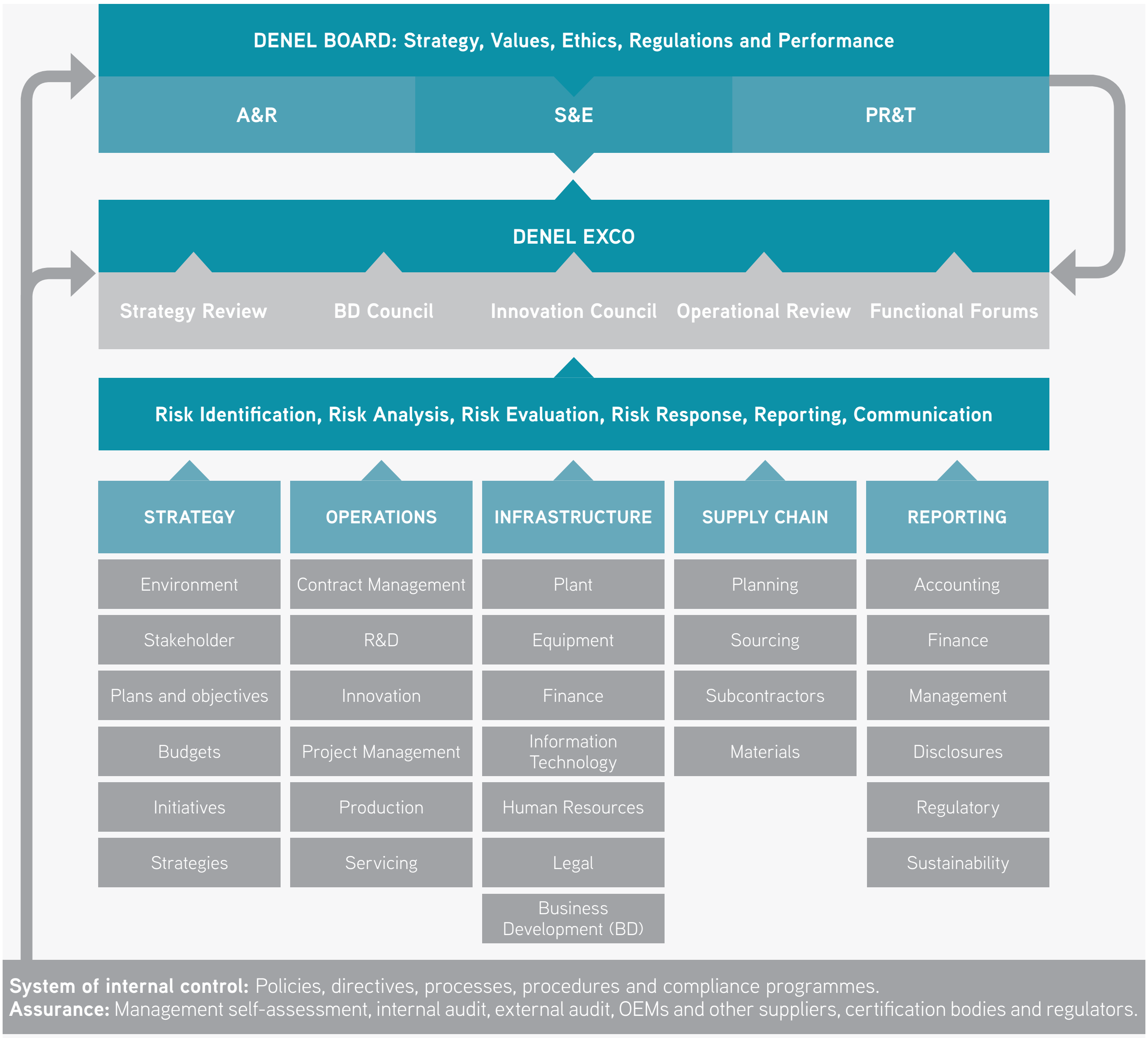
Denel's enterprise-wide risk management system is a combination of COSO and ISO31000 principles. Risk assessment is embedded in the strategy process, significant transactions, and is considered from conception to delivery of products and services. The risk identification and assessment process takes into account the operating environment and profile of Denel. It includes the gathering and analysis of trends in order to anticipate, respond to, and align emerging risks and opportunities to strategic and operational initiatives. The board is ultimately responsible for risk governance and has put in place a system of internal control to detect and mitigate losses, ensure decisions are taken within delegated authorities and protect the assets, including the reputation of the organisation. This includes a programme management system that allows for identification and mitigation of schedule, technical and resource management risks to prevent cost overruns and late deliveries.

Denel's risk profile is influenced by:

- Financial markets;
- Social and political developments;
- Currency movements;
- Technology advancements;
- Regulatory changes;
- Competition for business and high-end skills; and
- Local and global trends.

The EXCO is responsible to the board regarding risk governance and has appointed competent persons and promulgated policies and procedures to monitor all risk areas. Denel has adopted a combined assurance matrix to provide an integrated assurance in order for the board to play its oversight role regarding the effectiveness of the system of internal control and risk management. The board has delegated the role of risk governance to the A&R committee. The other board committees also play a role in the risk management process.

The risk management process is illustrated below:



FUNCTIONAL FORUMS

CFO forum, Supply chain forum, Risk and compliance forum, HR forum, Security forum, Legal and regulatory forum, Arms control forum, SHEQ forum and IT steering committee.

Denel adopts a combination of a top-down and bottom-up approach to risk assessment, and uses business units and group EXCO's inputs to develop the risk profile. Each business unit addresses internal control issues as they arise and also dedicates time at least twice a year to formally assess the internal control environment and address specific risks. This ensures risks are mitigated at the appropriate levels of management throughout the group. At least once a year, executive management undertakes a rigorous strategic planning process, which is reported to the A&R committee and which includes the identification of risks and opportunities, assigns responsibilities for mitigation, reporting and monitoring of risks. The broad categories of risks are financial, programme management, safety management, IT and other risks.

Financial risk management is governed by the group accounting and treasury policies, directives and procedures approved by the board. Risks related to programme and contract execution are monitored and managed continuously by management through various forums at business unit level including formal programme review meetings. Denel has adopted various management systems, ISO9001, ISO14001 and OHSAS18001, on which workplace, environmental management and product safety processes are based.

The company's top ten risks are detailed below including the key success factors, impact, affected stakeholders, opportunities and mitigations. The mitigations have been implemented and are duly monitored by both the board and the EXCO.

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

RISK DESCRIPTION	KEY SUCCESS FACTORS	IMPACT(S)	AFFECTED STAKEHOLDERS	OPPORTUNITIES	MITIGATIONS
Complexities of large programmes	Project management Supply chain processes Industrialisation Subcontractors Human resources	Programme slippages Penalties Cost overruns Reputational damage	Customers Subcontractors Material suppliers Employees	Additional skills development	Effective programme management process Supply chain management processes Quality assurance processes Joint Denel/customer programme reviews Effective HR strategy
Timeous placement of orders	Forward planning Budget alignment Efficient acquisition processes Stakeholder relationships	Inefficient use of resources Increased working capital requirements Meeting operational and financial targets	Customers Subcontractors, Material suppliers Lenders Employees	Customer relations Supply chain efficiencies	Effective stakeholder engagement model Production ahead of orders Strong industry support per Defence Review
Changing technology	Customer requirements Product roadmaps Research institutions Technology advances Latest plant and equipment	Product offering changes Inefficient plant Investment required	Customers Lenders Research institutions Employees	Selected plant renewal	Customer-funded R&D Self-funded R&D Continuous scanning of the environment for new requirements Formal relationships with research institutions, e.g. CSIR
Contracting models	Scoping and project definitions Appropriate terms and conditions Costing and contracting governance	Onerous terms and conditions Scope changes Cost overruns Disputes	Customers Subcontractors Material suppliers Employees	Process enhancements Customer relations	Contract management process Regular review of contracts Customer relationship management
Dependency on defence budgets	Stakeholder relationships Market intelligence Geopolitics	Increased competition in traditional and developing markets Dependence on few traditional markets Revenue/growth stagnation Technology development	Customers	Targeted acquisitions and partnerships to access new markets Diversification	Business development strategy and processes Market intelligence Effective stakeholder engagement model
Human resources	Talent acquisition and management Learning and development Performance and rewards Employee relations Transformation	Ageing workforce Organisational climate EE Skills attrition	Employees Organised labour Shareholder	Amplify current skills incubation processes	HR and transformation strategy Communication strategy Stakeholder engagement model
Ageing plant (ammunition plant)	Produce at optimal capacity Cost effective production Energy and resource efficient plant Safe plant Plant capitalisation programme	Inefficient plant High cost of maintenance Compatibility Competitiveness Investment required	Customers Lenders Employees	Selected plant renewal	Maintenance programme Plant renewal programme
Legal and regulatory changes	Compliance Arms control Statutory obligations Operating licences	Reputational damage Loss of operating licences Penalties	Regulators Government Customers	Improved business processes	Compliance framework Stakeholder engagement model
Solvency and liquidity	Cash from operations Facilities Working capital	Funding for new large contracts High working capital requirements High levels of debt	Customers Subcontractors, Material suppliers Lenders	Improved business processes	Funding strategy Cash flow management Cost containment
Security	Effective internal controls Effective security intelligence	Theft of property and information Staff security Cyber attacks	Employees Customers Suppliers	Improved business processes Collaboration with authorities	National Key Point protocols and structures Effective internal security management system

FRAUD AND CORRUPTION

Denel's values of integrity, the principles of the UN Global Compact and the requirement of the PFMA to prevent financial misconduct and fraud, inform Denel's fraud and corruption prevention strategy. The S&E committee advises the board on good corporate citizenship and ethical relationships and oversees the implementation of the strategy. During the year, Denel's fraud and corruption prevention strategy and policy was aligned with legislation and updated to improve detection, prevention and investigation of possible fraud and corruption.

FRAUD AND CORRUPTION AWARENESS

Denel has implemented a system of financial and operational controls including policies, such as the delegation of authority, procurement, and employee ethics that promote ethical conduct with the aim of preventing fraud and corruption. The system includes security procedures to protect assets, and declaration of interests by employees and directors.

Denel has adopted a transparent procurement process that consists of formal tender publications, as well as appointed adjudication committees to ensure segregation of duties, and procurement decisions are taken within the delegated authority.

The scope of the code of ethics and business conduct was broadened to include business partners and other stakeholders. As part of instilling a culture of good ethics and integrity, Denel embarked on group-wide campaigns to communicate its values to employees.

DETECTION OF FRAUD AND CORRUPTION

Management continuously interrogates financial, HR, and inventory information to detect possible instances of fraud and corruption as part of the day-to-day control activities. In addition, external auditors and internal auditors include fraud detection in their audit procedures and have found no evidence of fraud and corruption for the year under review.

Denel has refined the parameters of its continuous control monitoring (CCM) system to increase data accuracy and improve the detection of discrepancies in the procurement and payment environment which might be susceptible to fraud and corruption. Internal audit reviewed all discrepancies and no instances of fraud were identified.

WHISTLE-BLOWING

Denel has an independent, confidential hotline accessible to all stakeholders, through which fraudulent and unethical behaviour may be reported. The hotline number is published on the intranet and website, as well as on supplier and customer orders, in the company newsletter and communicated on noticeboards. However, Denel is comfortable that the CCM process, diligent management assessments, as well as external and internal audit procedures which include the Auditor-General requirements of supply chain fraud risk assessment, highlighted no instances of fraud and are effective in complementing fraud and corruption detection.

TO REPORT SUSPECTED INCIDENTS OF FRAUD AND CORRUPTION EMPLOYEES AND STAKEHOLDERS CAN CALL

0800 20 48 80

Out of the eight cases reported through the hotline, one related to the unauthorised removal of property which was recovered and no loss incurred. The rest of the cases were not fraud-related, but rather HR issues and were addressed accordingly.

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

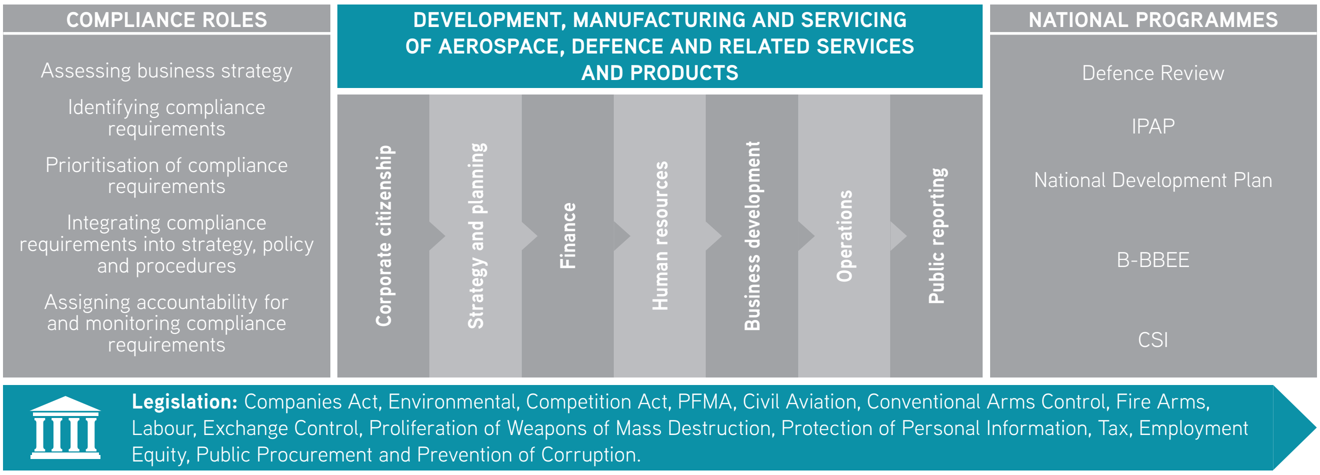
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

The nature of Denel's business requires assessment of and integration of legal, regulatory and public policy requirements into the strategy and operational processes of the organisation to meet its contractual, moral and corporate citizenship obligations. As a public entity trading globally, the observation of laws that govern the company and its activities forms the foundation for good corporate governance and demonstrates stewardship and responsibility to the shareholder and other stakeholders.

LEGAL COMPLIANCE FRAMEWORK

Denel has implemented systems to enable the company to meet its legal and regulatory obligations regarding protection of confidential information, occupational health and safety, the environment, quality management, as well as industry and trading requirements.

The framework is illustrated in the diagram below:



QUALITY COMPLIANCE

Denel has appropriate policies, procedures, specifications, laboratories, testing facilities and other control mechanisms to embed quality in the organisation. The quality system ensures that quality requirements are integrated in the following processes: product design, tender, product development, manufacturing and after-service delivery.

In addition to regular self-assessments, Denel's quality management systems were audited by the relevant certification and accreditation bodies as depicted in the table below. No significant deviations were identified.

BUSINESS UNIT	MANAGEMENT SYSTEM		SYSTEM MAINTENANCE		FACILITY ACCREDITATION		PROCESS ACCREDITATION	
	Standard	Certification body	Last audit date	Next audit date	OEM	Next audit date	Process name	Next audit date
DAe	AS9100C	Bureau Veritas	Nov 2013	Jun 2014	Airbus	Jun 2014	Special Process NADCAP	Mar 2015
DAv	ISO9001 AS9100C Part 145 Part 14	Bureau Veritas Bureau Veritas SACAA EASA	Nov 2013 Nov 2013 May 2013	Nov 2014 Nov 2014 Sept 2014	Eurocopter Lockheed Martin	Jun 2014 Dec 2014	SANAS Calibration labs	Jan 2015
DD	ISO9001	Bureau Veritas	Nov 2013	Nov 2014	N/A	N/A	ISO/IEC 17025 (Calibration Facility)	Jul 2014
DLS	ISO9001	Dekra	Jun 2013	May 2014	N/A	N/A	N/A	N/A
PMP	ISO9001	SABS	Apr 2014	Oct 2014	N/A	N/A	N/A	N/A
OTR	ISO9001	SABS	Mar 2014	Sept 2014	N/A	N/A	N/A	N/A
LMT*	ISO9001	-	-	-	N/A	N/A	N/A	N/A

* *In process of putting processes and procedures in place to be able to report on the matters above*

COMBINED ASSURANCE

Denel has adopted a risk-based internal audit plan. The objective of a combined assurance matrix is to ensure a coordinated approach to assurance activities to optimise costs, avoid duplication, and prevent assurance overload and assessment fatigue.

The broadening scope of assurance necessitates an increase in assurance provided in the form of management self-assessments, internal audit and external audit, regulatory bodies, such as the National Key Points Secretariat, National Conventional Arms Control Audit and Inspection Directorate, Armscor, and external bodies for certified systems such as the SABS, Dekra, as well as accredited processes such as OEMs.

The effectiveness of Denel's system of internal control, financial, operational and other regulatory controls is continuously assessed by and reported to the A&R committee to enable the board to discharge its oversight responsibilities.

STAKEHOLDER ENGAGEMENT

DENEL REGARDS REGULAR INTERACTION WITH A WIDE RANGE OF STAKEHOLDERS AS A STRATEGIC PRIORITY IN SUPPORT OF THE COMPANY'S CORE VALUES. THE CREATION OF ONE INTEGRATED COMPANY WHICH SHARES SERVICES ACROSS THE GROUP HAS ALSO PLAYED A ROLE IN STREAMLINING THE STAKEHOLDER RELATIONS MANAGEMENT.

STAKEHOLDER RELATIONS

As a SOC, Denel has a primary responsibility to interact at high levels with our stakeholder, the SA Government through the DPE. During the past year, Denel 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 release of the annual results, at meetings of the Denel board, 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 of the National Council of Provinces. The company also hosts parliamentary delegations at various Denel facilities and responds to questions from members of parliament.

Denel hosted a number of visiting delegations, representatives of various governments, as well as existing and prospective clients and participated in a number of international defence and security related exhibitions, amongst others the DSEI show in London, IDEX in the UAE and the Defence and Security exhibition in Thailand.

In the year under review, the internal communications function became a key feature within the group's corporate communication with the appointment of an internal communication specialist to drive this function across the group. During 2012/13 structural changes led to the integration of 11 business units into six units, and the establishment of a group executive leadership team. These changes have necessitated a structured programme of communication with employees to support and embrace the group's vision, mission and values so that the company can continue its upward trend. Initiatives to undertake change management communication programmes within the group were initiated by keeping employees informed as key internal stakeholders through various media platforms including publications like Denel Insights, the monthly Denel News and weekly Denel Update containing information about contemporary news of interest.

The GCEO communicates with all employees through roadshows, regular visits to business units within the group, as well as Infograms and "From the Desk of the CEO" messages on issues of immediate importance.

The main stakeholder interactions during the year under review were:

STAKEHOLDER GROUP	MATERIAL ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Denel's shareholder, parliament and government departments DPE - Portfolio committee - Select committee - DoD&MV - dti - DST - National Treasury - DIRCO - NCACC	- Understanding of Denel's values and strategic focus - Support for Denel's business activities - Defining the role Denel can play in government's developmental agenda and strategic objectives - Government support for export opportunities and industry participation - Financial performance - Key performance areas - Transformation and advances in EE, B-BBEE, diversity and ED - Denel "to be state" and alignment as a single integrated company	- Engagements and bilateral meetings with DPE on the Shareholder's Compact - Board engagement with the shareholder - Hosting of Ministers and senior executives at Denel events - Interaction with portfolio committees and oversight visits - Regular meetings with senior management of stakeholder departments and agencies - AGM	- Greater understanding of Denel's values and strategic business focus - Support for marketing activities - Financial support from NT - Contribution Denel can make to national priorities - Increased focus on the value of stakeholder relation - Increased capacity for Denel to contribute to national developmental objectives - Highlight Denel's value-add to SA - Positioning Denel as a global leader in the design, development and manufacturing of top quality products and services

STAKEHOLDER GROUP	MATERIAL ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Clients, including: - SANDF - DoD&MV - Armscor - SAPS - International clients - Local commercial clients - AMD - Diplomatic community	- Denel as custodian of core strategic and sovereign capabilities - Performance and programme delivery - DoD&MV budget priorities and constraints - Promotion of product ranges and new capabilities - R&D - Showcasing Denel's products and technology to wider audiences - Support for the release of key orders	- Regular interaction with key decision-makers at events and meetings - Participation at international exhibitions and shows - Contributions to broader SA defence industry - Stakeholder visits to Denel campuses - Hosting of foreign delegations and defence attachés	- Improved order book from R22bn to R32bn - Better appreciation of issues - Timeous obtaining of letters of support - Denel maintained all strategic capabilities for the SANDF - Achieved >95% of contracted milestones for the year under review - R507m spend on R&D - Export revenue improved by 28% for the year
Internal audiences: - Employees - Organised labour	- Affirmation of Denel's values and strategic objectives - Sharing of general information about key business developments - Business focus and strategy updates - Maintenance of sound labour relations	- Roadshows and site visits by GCEO and senior executives - Regular publications – Denel Insights, Denel News, Denel Update - From the GCEO Desk communication and infograms - Communication through briefings, on notice boards, e-mails and intranet - Meetings of strategic leadership forum - Monthly meetings of Denel communications forum to coordinate messages among the business units - Staff functions and celebrations of national days - Regular meetings with organised labour and professional organisations - Climate surveys	- Informed and empowered employees - Support for Denel's values and strategic objectives - Positive employer-/employee relationships - Pride in the company and its achievements - Greater understanding of strategic decisions taken by management - Higher levels of coordination in communication activities among entities - Increased productivity
Media	- Foster greater understanding of Denel's business and objectives - Positioning Denel as a strategic national asset - Highlighting Denel's contribution to broader SA society - Promoting the free flow of information and transparency	- Regular hosted events, media conferences and media briefings - Visits by the media to Denel business units and media open days - Media statements and responses to media queries - Participation of Denel spokespersons on radio and television - One-on-one interviews by GCEO with selected publications - Contribution to national discourse through thought leadership	- Improved understanding of Denel's business and objectives in the media - Positive coverage of Denel's activities and achievements - Greater exposure of Denel to national and international audiences - Strategic support to Denel's marketing activities - Strengthened reputation of Denel as credible strategic partner for innovative defence and security-related technology and responsible corporate citizen

MEDIA RELATIONS

During 2013/14, Denel maximised every opportunity to inform the media about the business, its activities, as well as achievements and challenges. Engagements took place through strategic media briefings and conferences, hosted by the chairman of the board, the GCEO and business unit CEOs in some instances. Media statements announcing new developments, thought leadership articles in selected industry magazines and mainstream newspapers and magazines, as well as commercial radio and television interviews were the key platforms of communication with general audiences. Parallel to these initiatives, which were editorial and therefore unpaid-for, the company participated in a number of advertorial features in media platforms that are targeted at specific business-related audiences.

The release of the 2012/13 annual results was one of the highlights in media engagement and garnered maximum coverage which was largely positive towards Denel. This was an opportunity for the Minister of Public Enterprises, the chairman and the GCEO to highlight the company's positive financial results and to set out the strategic focus areas for the year ahead.

A well-attended media day was hosted to demonstrate the capabilities of the Badger infantry combat vehicle, following government's decision to give the green light for its acquisition by the SANDF.

A recurring theme of media coverage during the financial year related to Denel's contribution to developmental initiatives in areas such as skills development, bursaries, recruitment, ED and support to students and learners in the fields of science, mathematics and technology. This coverage strengthened Denel's reputation as an innovative and caring company and a valuable national asset for SA.

Among the important announcements covered by the media were:

HEADLINE	EXTRACT FROM PRESS RELEASE
DAv signs new agreement with Russian Helicopters at Paris Air Show June 2013	DAv is expanding its facilities to service Russian Helicopter aircraft to now also include overhaul and upgrade work. An agreement between Denel and the Russian state-owned corporation, Oboronprom, was signed at the Paris Air Show. Mike Kgobe, the CEO of DAv, said the new agreement will enable the company to perform the entire range of maintenance, repair and overhaul services to the Mi-8/17 series of commercial and military helicopters that are widely used across Africa. The two companies opened a centre of excellence to do this work during the BRICS Summit in March 2013.
Denel success story continues with another profitable year July 2013	Denel is strengthening its reputation as a profitable and sustainable business which contributes significantly to SA's developmental objectives. The current year's positive results and the newly concluded contracts of R22bn, which will be executed over the next seven to ten years, will contribute to its sustainability. In addition, the company has a significant order pipeline that will enable us to grow the business in both local and international markets. "I am confident that the company has now entered a trajectory of sustained growth and we are in a position where we can focus on creating a sustainable future," GCEO Riaz Saloojee says.
Denel Overberg Test Range successfully supports European Space Agency satellite launch July 2013	Two OTR telemetry specialists used the range's mobile telemetry station to support the second launch of the VEGA space mission in French Guiana. "The Denel group is proud of this feat by our colleagues. The mobile telemetry station of OTR provided key coverage for the powered phase of the ascent of the launch vehicle shortly after it was launched from the Guiana Space Centre near Kourou, until it disappeared over the horizon in the North," said Denel GCEO, Riaz Saloojee.
Schools, communities and the elderly benefited from Denel's Mandela Day activities July 2013	Denel employees and executives spent their Mandela Day activities this year by planting vegetables and trees, fixing classrooms and reading to children at the Lesedi Primary School in Soshanguve. The school which has 1 248 learners, has been adopted as a corporate social investment project by SA's premier defence technology manufacturer because Soshanguve is home to many of the company's employees. "Our contribution to International Mandela Day is to plough back into education, mindful of Madiba's own words that *'education is the most powerful weapon that you can use to change the world,'"* said Vuyelwa Qinga, the group communications manager of Denel SOC.

HEADLINE	EXTRACT FROM PRESS RELEASE
CSIR and Denel join forces for cutting-edge research August 2013	The CSIR and Denel have expanded their collaboration in research and technology projects, including joint product developments in the aerospace and defence industries. An MoU signed between the GCEO of Denel, Riaz Saloojee and the CEO of the CSIR, Dr Sibusiso Sibisi, will form the basis for "a closer technology alliance" between the two organisations.
SA manufacturing sector benefits from offsets created by Denel's defence transactions August 2013	Denel's recent contract to supply turrets for armoured vehicles to the Malaysian army has resulted in a major offset transaction for the local engineering sector. A MoU for future cooperation in the automotive industry was signed in Kuala Lumpur at a signing ceremony attended by Pres Jacob Zuma and Malaysian Prime Minister, Mohd Najib Tun Razak.
Denel launches new space engineering unit September 2013	Fuelled by SA rocket science and satellite technology, Denel has launched "Spaceteq" as a newly-formed space engineering business unit. This follows the incorporation of satellite manufacturer, SunSpace into the Denel group in a move which optimises the highly-advanced engineering and technology skills between the combined businesses. Riaz Saloojee, the GCEO of Denel, says Spaceteq will strengthen the group's position as a leader in innovative and advanced aerospace systems and technology.
New Badger will be combat-ready in three years' time November 2013	The first Badger infantry combat vehicle will roll off Denel's production facilities in October 2015 - exactly two years after Armscor and the SANDF placed a multi-billion Rand order for 238 vehicles, which will rejuvenate the country's landward defence capabilities. Stephan Burger, the CEO of DLS, says the industrialisation at its facilities in Lyttelton has already started and the manufacturing will commence in early 2015. The full fleet, which will replace the Ratels that are currently used, will be delivered by end 2022.
Denel joint-venture awarded R5bn contract for guided-missiles in UAE November 2013	A R5bn contract awarded to Tawazun Dynamics by the UAE armed forces will see precision-guided bomb systems being integrated onto Mirage 2000-9 fighter jets flown by the air force of the UAE. The Al-Tariq is a family of strap-on bomb kit systems manufactured by Tawazun Dynamics, a joint venture between Denel SOC and the UAE company, Tawazun. The announcement was made at the annual Dubai Air Show where the Al-Tariq was on display.
Ratings upgrade confirms Denel's financial turnaround and long-term potential January 2014	Denel welcomed the decision by the FitchRatings to upgrade the company's long-term rating and affirm its current short-term outlook. "It is a vote of confidence in our prudent financial practices and a clear indication that our turnaround strategy is working and being recognised in financial circles and investor communities," says Riaz Saloojee, the GCEO of Denel. "Denel is a valuable national asset which contributes more to SA than what is contained in its primary mandate to supply the defence community with defence-related technology and solutions," says Mr Saloojee.
Successful tests prepare way for production of Denel's new Seeker 400 UAV February 2014	Denel's Seeker 400 unmanned aerial vehicle system successfully completed its first round of flight tests after a three-year development process. Tsepo Monaheng, the CEO of DD, says he is confident that production of the Seeker 400 for clients will start in the second half of the year. "This is a remarkable achievement for Denel and again confirms our global leadership position in the design and manufacturing of UAVs," he said.


TEST RANGE

SOCIAL RESPONSIBILITY

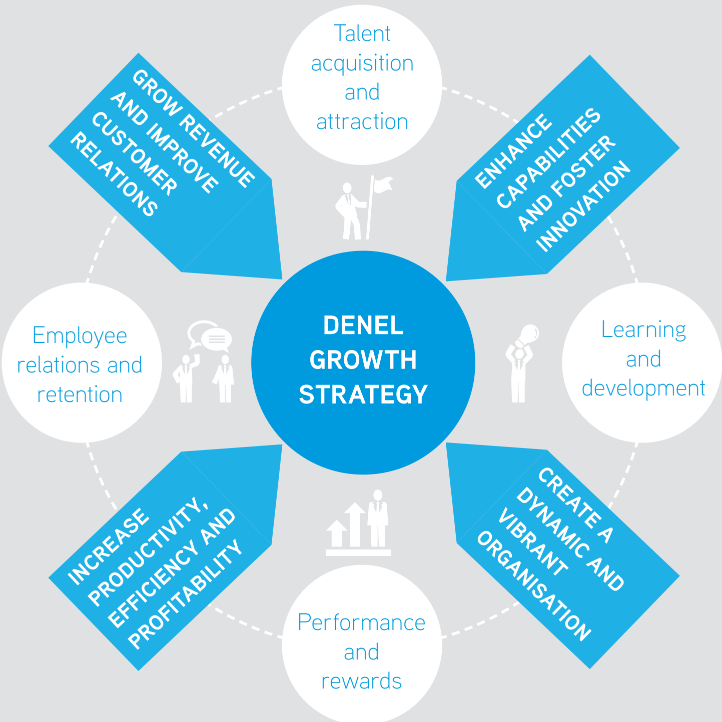
PART FIVE

PEOPLE MANAGEMENT

A WORKFORCE THAT IS SKILLED, ENGAGED, DIVERSE AND MOTIVATED IS KEY TO ACHIEVING ORGANISATIONAL SUCCESS. ONE OF DENEL'S STRATEGIC OBJECTIVES IS TO ENSURE THAT THE ORGANISATION HAS A MOTIVATED, INNOVATIVE AND EMPOWERED WORKFORCE AND THE COMPANY'S PROGRAMMES SEEK TO ENSURE THAT THE ENVIRONMENT IS REPRESENTATIVE, DIVERSE AND VIBRANT.

The EXCO is responsible for giving strategic direction and ensuring that the HR and transformation strategies are driven as one of the key strategic objectives. Denel's HR strategic plan is premised on the four strategic pillars and can be depicted as follows:

HUMAN RESOURCE STRATEGIC PLAN



TALENT ACQUISITION AND ATTRACTION

Skills attraction remains an integral part of achieving business objectives at Denel. A diverse workforce is an advantage to any organisation as this enhances creativity, challenges boundaries and provides a competitive edge.

Denel continues to attract talent through recruitment channels such as head-hunting, recruitment websites, social media platforms, recruitment agencies, tertiary institutions, etc.

Skills attraction focuses on the following key priorities to ensure diversity is improved:

- EE designated groups;
- Attraction of females;
- Attraction of employees with disabilities; and
- Young black employees i.e. under the age of 35 years.

ATTRACTION OF WOMEN

In order to improve the representation of women within the organisation, Denel participates in various programmes that target female learners, such as:

GirlEng
is a mechanism used to recognise and attract high potential mathematics and science students, and nurture and mentor them to enter the field of engineering

Technogirl
is a three-year job shadowing programme that exposes girls to mathematics, science and technology related careers, aimed at learners in grades 11 and 12

SAWomEng
is a recognised non-profit organisation at the forefront of tackling issues regarding gender gaps in the engineering environment

Cell C Take a girl child to work
is an annual event where female learners are hosted for the day to showcase the various aviation careers available

Denel is reviewing all its policies and practices pertaining to EE with a view to ensure continuous improvement. EE remains a challenge, but the group is working hard towards ensuring that the workforce is representative of the demographics of SA. Details of the workplace profile are discussed later in this section.

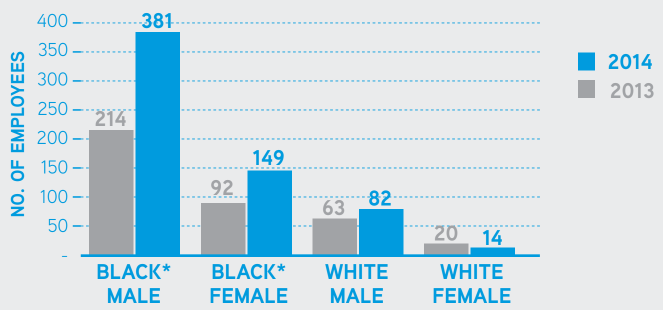
The graph below illustrates appointments by race and gender:

626 new employees appointed

*85% were black**

26% were female

99 jobs created

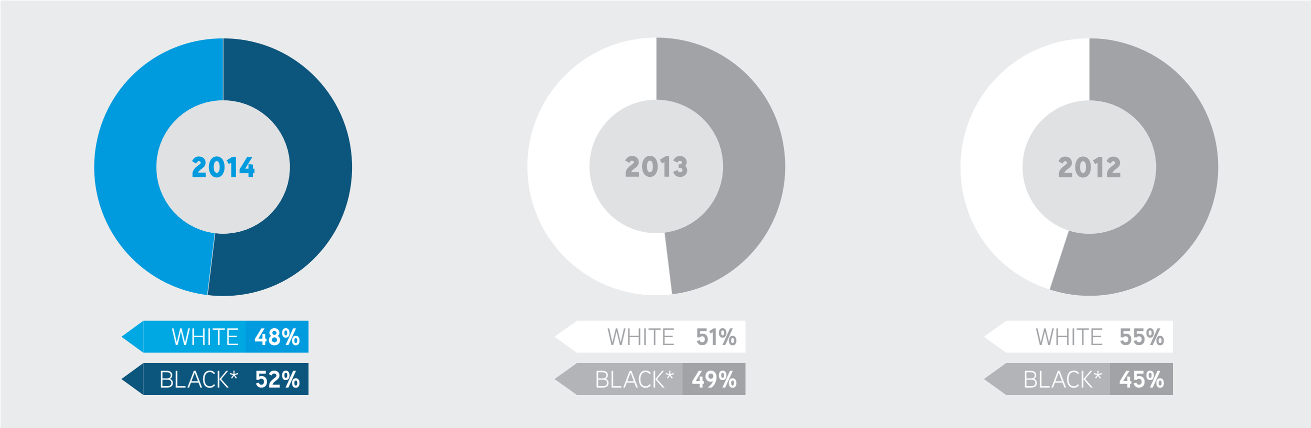


The table reflects the current employee mix per occupational band:

JOB CATEGORIES	2014		2013	
	BLACK*	WHITE	BLACK*	WHITE
Executive management	8	3	8	4
Senior management	27	35	20	41
Management	90	217	73	236
Professional staff	1 302	1 415	1 349	1 511
Administrative staff	243	194	196	206
Support staff	168	104	109	102
Trainees	138	23	130	18
General workers	159	10	197	19
Sub total	**2 135**	**2 001**	**2 082**	**2 137**
Total	4 136		4 219	

* *Black refers to African, Coloured and Indian*

The graph below depicts the progress made during the last three years with regards to improving representivity within the organisation:



** Black refers to African, Coloured and Indian*

LEARNING AND DEVELOPMENT

Denel has realigned its learning and development strategy and processes to encourage development and create a learning organisation. This strategy will ensure that training interventions are aligned and ultimately supports the Denel strategy. Special emphasis is being placed on the growth and development of younger employees, as well as ACIs. Workplace skills plans are developed and submitted to the relevant SETA annually based on the learning needs identified throughout the business.

Leadership, management and supervisory skills development

A leadership management and supervisory development framework was developed by Denel and has been in place since March 2009. Specific functional and behavioural competencies were identified for all three levels of leadership.

With the competency framework as a foundation leadership programmes will undoubtedly enhance Denel's pursuit for growth and sustainability. Partnerships have been established with business schools and other service providers in order to support this leadership and management initiative. To date 167 employees have completed the Denel leadership programme.

Succession planning

Denel has acknowledged that succession planning is a business imperative to ensure survival, growth and profitability of a company. The objective of succession planning is to create a pool of quality successors for critical and strategic positions to improve immediate availability when a position becomes vacant, eliminating a strategic void, thereby purposefully developing individuals in preparation for future strategic positions.

The company has identified key positions group-wide for succession planning, as well as key individuals who are approaching retirement age (managing risk). Incumbents, predominantly young ACIs with high potential, have been identified to be groomed as future successors.

Mentorship

Mentorship provides inexperienced employees the opportunity to receive on the job training by more experienced individuals. This ensures that the retention and sharing of critical knowledge and know-how are improved. As technical competence is developed over long periods of time, mentorship enhances the transfer of scarce and critical skills and increases the skills pool base.

Executive coaching

Formal executive coaching relationships have been established for Denel executives and managers as part of the leadership and management development programmes. Coaching initiatives are implemented as informed by the respective developmental needs and will continue to align employee behaviour with the macro-strategy of the group.

Employee study assistance

Employees are encouraged to further their academic qualifications through study assistance. This ensures that employees are continually improving their skills and that they are keeping abreast of the latest technologies and developments related to their fields of expertise.

DENEL SPENT 3% (2012/13: 3%) OF ITS PAYROLL COSTS TOWARDS LEARNING AND DEVELOPMENT.

TECHNICAL TRAINING

AEROSPACE AND ARTISAN TRAINING

The DTA remains an artisan training "hub" that develops skills particularly for the aerospace industry. DTA has been purposely structured and resourced to deliver technical training, and is not currently geared to deliver other skills development programmes, e.g. management training. The academy creates a foundation for future employability of young learners, trainees and apprentices. DTA trained 231 apprentices and 764 learners in various advanced and type training.

The following training courses are offered by DTA:

AVIATION RELATED TRADES	GENERIC TRADES	OTHER
Aircraft avionician	Fitter and turner	Advanced aircraft training courses
Aircraft electrician	Electrician	Aircraft type-specific training courses
Instrument mechanic	Machine tool millwright	Trade test preparation
Mechanic	Tool and jig maker	Trade testing
Radiotrician	Turner machinist	
Structural worker	Welder	

DENEL SPONSORED 262 ENGINEERS, APPRENTICES AND TECHNICIANS DURING 2013/14

BURSARIES

Bursaries for students in relevant technical disciplines are used as a means of creating a skills pool for future needs. Students (post-matric) can apply for engineering degrees in electronic, mechanical, industrial, software/computer and mechatronic disciplines. Upon successful completion of their studies, these learners are absorbed within the business.

ENGINEERING ACADEMY OF LEARNING

The shortage of skilled engineers in science and engineering in SA is well-documented. The technical nature of the work conducted within the aerospace industry combined with the high average age of engineers, further compounds this problem. The Engineering Academy of Learning (EAL) was established to develop and grow graduate engineers to enable them to be productive in as short a time as possible. 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. The interns are exposed to all aspects of high technology development, from design through to development, construction and qualification of a system. This programme ensures that newly qualified engineers are exposed to all aspects of technology development in a simulated environment and also enhances their project management capacity by ensuring products are delivered within the required time lines and within budget.

The interns of 2013 were tasked to design and build a smart grenade and launcher that will launch a 40mm grenade into a window offset from the original launch direction. The group was divided into two teams, one team designed the launcher while the other team designed the grenade. This project required extensive collaboration to ensure success of the product. The grenade made a successful maiden launch in December 2013.

INTERNSHIPS

Graduates, mostly from technical disciplines, are employed on internship programmes by various business units. This allows the graduates to acquire critical workplace skills, whilst simultaneously affording business units the opportunity to assess the graduates' employability.

An exciting opportunity was afforded to Denel's very own intern Lumka Msibi to travel to Antarctica for three months to assist with

Lumka in the Arctic for the South African National Antarctic Expedition summer relief voyage

science and weather research. Lumka, an aeronautical engineer has been selected on a volunteer basis to participate in the South African National Antarctic Expedition summer relief voyage.

VACATION WORK

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 more than 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

As Denel operates in the high-tech space, cooperation with academic institutions is pivotal to ensure that human capital and technology development are in sync. These relationships also provide a platform for the attraction of top talent. The company played an active role in participating in various top university career fairs nationally including Pretoria, Cape Town, Stellenbosch, KwaZulu-Natal, Witwatersrand, Johannesburg, North-West University and Nelson Mandela Metropolitan University, where our employer value proposition was proudly displayed. Students often visit our facilities where our products are showcased and are able to interact with employees and gain a better understanding of their chosen career.

TECHNOLOGY AND HUMAN RESOURCES FOR INDUSTRY PROGRAMME

Denel in collaboration with THRIP and the North-West University is sponsoring four female post-graduate students to achieve masters degrees.

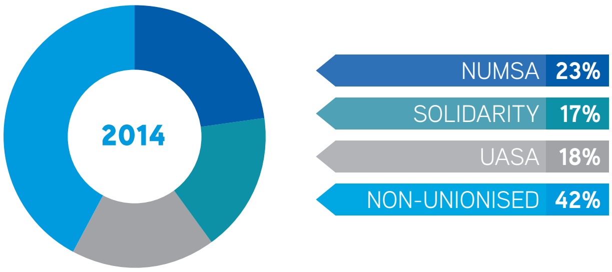
PERFORMANCE AND REWARDS

The philosophy underpinning rewards and recognition is that people should be rewarded for making a positive and appropriate difference to Denel through their performance, contributions and achievements. In this manner they contribute towards realising Denel's vision, strategic drivers, values and objectives to enable the company to become a dynamic, vibrant, financially sustainable, transformed and profitable organisation. The purpose of performance management is to embed a high-performing culture within Denel. Performance objectives are cascaded down throughout the organisation to ensure that performance outputs support the organisational goals.

EMPLOYEE RELATIONS AND RETENTION

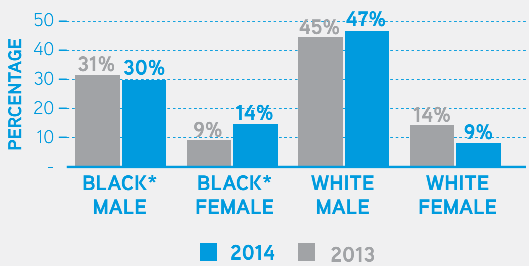
Sound labour relations are embraced within Denel and relationships are built on mutual respect and trust. Regular interactions with organised labour and employees are held at both business unit and group levels. Denel has formal relationships with three recognised trade unions, namely UASA, NUMSA and Solidarity, representing employees at various entities as depicted in the adjacent graph.

The labour environment is considered to be stable with no incidents of industrial action at any of Denel's campuses during the year under review. Steady progress has been made against the strike agreement negotiated at PMP during the previous year with nearly all initiatives that had been identified, implemented.



TERMINATIONS

The attrition rate for permanent employees of 5% for the period under review remains below the target of 7%, the benchmark for our industry. The graph below illustrates employee turnover, i.e. resignations, retirements and retrenchments by race and gender:



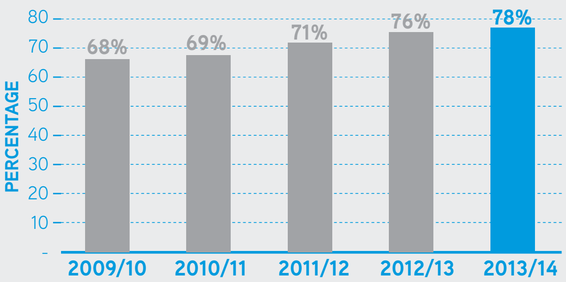
* *Black refers to African, Coloured and Indian*

EMPLOYEE WELL-BEING

Employee well-being forms an important part of the 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 healthy living. During these events medical risk assessments are done and voluntary HIV counselling and testing encouraged. Denel participates in the various national health campaigns, such as HIV/Aids and cancer awareness. The annual Denel road race encourages employees to make exercise part of healthy living and inspires both professional and novice runners to participate. Denel also engages its employees in fun days that take different forms at the various campuses.

ORGANISATIONAL CLIMATE IMPROVEMENT



Heritage celebration at the Irene campus

IMPROVING ORGANISATIONAL CLIMATE

Denel continuously strives to improve the organisational climate and conducts employee organisational climate surveys to assess the general climate and to monitor progress against targeted initiatives. Denel business units are required to implement annual transformation plans to address transformation within their workplaces. The monitoring of progress is conducted internally throughout the year by both the business unit's transformation committees and the Denel group transformation office. At the end of each financial year a summative assessment of progress made against the targets set in the business unit transformation plans, is conducted by an external independent assessor.

TRANSFORMING DENEL

The transformation strategy is underpinned by the Denel values. Denel has continued embedding the Denel values within the organisation and ensures all business units are aligned to one Denel vision, mission, purpose and values. This contributes to ensuring that the organisational culture is consistent across the group.

A change management process to embed a new culture is also being implemented. This process will create a philosophy in which our employees embrace change through their "hearts and minds" and that change is instilled into the DNA and daily operations of our business.

Values ensure the strength of Denel's culture, by focusing employees on the best ways to serve the organisation's needs. Values are particularly important in facilitating the effective transformation of Denel in that they promote an enabling organisational culture, are a bonding mechanism between employees, and promote effective workplace relationships.

Various initiatives were concluded to ensure an improved understanding, adoption and living of the values within work teams and departments.

DENEL VALUES

PERFORMANCE
WE EMBRACE OPERATIONAL EXCELLENCE

INTEGRITY
WE ARE HONEST, TRUTHFUL AND ETHICAL

INNOVATION
WE CREATE SUSTAINABLE INNOVATIVE SOLUTIONS

CARING
WE CARE FOR OUR PEOPLE, CUSTOMERS, COMMUNITIES, NATIONS AND THE ENVIRONMENT

ACCOUNTABILITY
WE TAKE RESPONSIBILITY FOR ALL OUR ACTIONS

CONTRIBUTION TO OUR COMMUNITIES

DENEL'S CORPORATE SOCIAL INVESTMENT (CSI) PROGRAMMES MAINLY TARGET YOUTH TO IMPROVE, EMPOWER AND TRANSFORM THEIR LIVES IN AN ATTEMPT TO ENSURE THAT THEY ARE GIVEN THE OPPORTUNITY TO CONTRIBUTE MEANINGFULLY TO THE ECONOMY. THE PROGRAMMES FURTHER FOCUS ON EDUCATION AND SKILLS ACQUISITION AS A CRITICAL ENABLER IN THE FIGHT TO ERADICATE POVERTY, INEQUALITY AND UNEMPLOYMENT.

Denel's youth development programme is two-pronged, namely creating awareness among the youth about the various career opportunities available in mathematics and science, and providing programmes to address their development in these areas.

AWARENESS CREATION

Research has shown that an important aspect of youth development is the creation of awareness which acts as a catalyst for inspiration to achieve success. Learners who are encouraged to achieve academic success are better able to attract opportunities within the economy and ultimately improve their standard of living. Denel creates awareness of careers within its sector by participating in career shows, hosting learners at exhibitions, such as air shows, and hosting facility tours for learners.

During June 2013, Denel hosted 100 learners from the Free State province in collaboration with DPE and other SOCs reporting to DPE. These learners from grades 9 to 11 were accommodated at Denel's Kempton Park hostel for a week during the school holidays and exposed to the various careers available at the different SOCs. Due to its overwhelming success, this programme is scheduled to be an annual event alternating between the nine provinces.

YOUTH DEVELOPMENT

Denel's youth development flagship programme is its schools outreach programme. This programme is fashioned on a Saturday and holiday-school concept, and assists learners with additional classes in mathematics, science, English and life science. Learners from surrounding schools are brought to a central venue and taught by teachers from the community. The programme is targeted at grade 11 and 12 learners. These learners apply to be part of the programme during their grade 10-year and need to have a minimum 60% in mathematics and science to be considered. Since the inception of the North West programme in 2005, there has been a 100% matric pass rate with university acceptance. This programme is currently implemented in the following provinces: North West, Gauteng, Free State, Limpopo and Mpumalanga with 480 participating learners.

In Gauteng the Saturday school is implemented by Denel volunteer engineers who provide extra tuition to learners in mathematics and science. The participating schools are: Steve Tshwete secondary school, Olievenhoutbosch secondary school, Reigerpark secondary school and Springs Etwatwa Rafedile centre.

Denel's schools outreach programme yielded excellent matric results:

- 20 students from North West received university acceptance with a total of 44 distinctions. One learner achieved an aggregate of 90% and three others an average of over 80%;
- Gauteng Springs Etwatwa programme (120 learners) achieved 100% matric pass rate with 86% of the learners qualifying for university entrance - Top learner achieved 7 distinctions, a further 15 learners achieved 6 distinctions; and
- Reigerpark programme (45 learners) achieved an average pass rate of 92% in mathematics and 62% in science.

Learners of Lesedi primary school

OTR spreading festive cheer at Wagenhuiskrantz Primary in Arniston

SOC COLLABORATION

Denel participates in the DPE SOC CSI forum that aims for better coordination of CSI initiatives by SOCs to ensure a more significant impact on the intended beneficiaries. The forum identified a number of flagship projects, among others the education flagship project that includes mathematics and science support to needy schools, especially in rural areas. This project includes inter alia telematics systems (subject revision support), distribution of mathematics dictionaries to support school libraries, promoting engineering and science career choices, as well as providing learner support, teacher support and donation of equipment and machinery.

In the spirit of women's month celebrations, female Denel engineers visited various high schools in Gauteng during August and September with the aim of encouraging learners to take up science and engineering technology related careers. Denel also participated in the activities initiated by DPE through facilitating trainees, engineers and scholars to attend the activities and providing guidance during career expos.

Denel implemented a number of CSI interventions within the Ingquza Hill Municipality in the Eastern Cape during October 2013:

- Installation of the telematics learner support system;
- Hosting a career expo in collaboration with other SOCs and the Department of Higher Education and Training;
- Provided more than 400 maths dictionaries to the four local high schools; and
- The funding of four boreholes.

Ingquza Hill is the site of an event of historical significance for SA, where in 1960 members of the Pondo people were killed and others arrested following a protest against various forms of apartheid legislation affecting rural agrarian communities.

CANSA RELAY FOR LIFE

Relay For Life is an international movement that affords the community, corporates as well as small, medium and large enterprises, the opportunity to stand together in the fight against cancer. It is one of the Cancer Association of South Africa (CANSA) fundraising projects that is an overnight event. Denel has formed a partnership with CANSA to host the annual corporate CANSA Relay for Life on the Irene campus. Denel provides the facility and any other requirements to make the event successful. Garden and maintenance staff assists with security for the vehicles. Our partners on the campus also contribute to the success of the event with Ukweza providing the cleaning staff, and RCSSA supplying the ablution facilities and any tent requirements.

Denel takes great care in ensuring that its operations do not negatively affect the communities or environment it operates in.

OTHER OUTREACH PROJECTS

Denel supports two primary schools in the Overberg region, with partial payment of an additional teacher's salary, benefiting approximately 400 primary learners

Denel hosted 48 matric learners from Peak View secondary school, a feeder school for Khayelitsha, Langa, Bridgetown and Gugulethu in a three-day motivational and leadership camp

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

"Make 'em Fly" campaign: Denel in partnership with Kid's Haven launched a campaign in Kempton Park, 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

Denel provides financial support for operational costs and the building of a library and sports facilities to the Zodwa school for the handicapped in Atteridgeville

Denel introduced a mini chess programme at the Philena primary school in Olievenhoutbosch. This programme uses chess to teach learners about maths and science

Denel partnered with the Reach for a Dream Foundation in making a young girl's dream of becoming a pilot come true by hosting her as a Rooivalk "pilot" for a day

DENEL ALSO SUPPORTS VARIOUS OTHER SOCIO-ECONOMIC ACTIVITIES

DENEL PARTICIPATED IN MANDELA DAY - DENEL STAFF DEMONSTRATED THEIR COMPASSION, COMMITMENT AND THEIR ABILITY TO REACH OUT TO THOSE IN NEED

Lesedi primary school in Soshanguve - donated stationary, assisted with window refurbishment and planted a new vegetable garden

Nomthandazo Day Care Centre in Zenzele informal settlement in Benoni - feeding over 300 children and elderly citizens. Denel also provided over 100 families with food and hygiene packs

OR Tambo primary school in Phomolong - donated hygiene packs in partnership with Kaya FM and Pfuna Projects. Denel further donated learning and teaching materials, tables and chairs for Grade R learners and also pledged a mobile laboratory

Via Nova school in East Lynne - painting dormitory, providing food hampers and donating sports kits

Filadelfia secondary aschool, a school for disabled children, in Soshanguve - provided paint services

Mohau Children's Home in Atteridgeville - provided toiletries to each child

Danville Project feeding scheme - prepared food for children and impoverished families

Mispah school for children with learning disabilities in Elim. Mandela Day 2013 at OTR

SUPPLY CHAIN MANAGEMENT

The supply chain is key in delivering on the current business plan, and is closely monitored at EXCO level. There has been an increase in activities at Denel as major projects move into the production phase. A high portion of Denel's input costs is in respect of supply chain, with material procurement accounting for an average of 57% (2012/13: 49%) of cost of sales. Denel's supply chain strategy includes:

- Maximising local content in its programmes and better support the local defence industry;
- Equitable sharing of supply chain spend and ensuring adequate participation by black-owned businesses; and
- Exploiting purchasing power to drive down costs and create value.

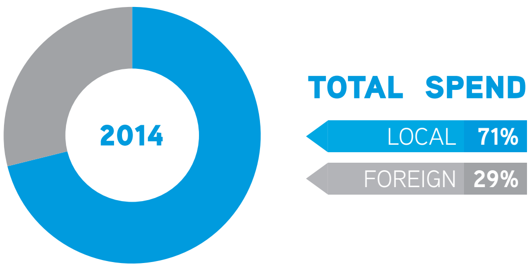
HIGHLIGHTS

- Local spend of 71% vs 70% target;
- Black-owned spend increases from 8% to 10% of total spend of which 21% is spent on black woman-owned companies;
- Recognised B-BBEE spend of 79% vs 70% target in codes; and
- Increased number of ED beneficiaries from 58 to 76.

LOCAL SPEND

Local spending positively impacts skills development in ED beneficiaries and contributes to alleviation of unemployment and reduces levels of poverty. Denel focuses on increasing spend on locally manufactured products and services, partly to contribute towards the growth and competitiveness of our economy, and partly to improve access to products and services. Many OEMs are based either in Europe or the USA. In some instances these OEMs prescribe the sourcing of complementary materials and services from foreign suppliers in their supply chain network. Denel continues to engage the relevant OEMs with a view to solicit greater support of the local industry in this regard. During the year under review, Denel spent 71% on local suppliers with an increased spend on black-owned and black woman-owned companies.

The strategy also includes development of suppliers and is targeted mainly on growing the pool of black-owned and black woman-owned suppliers that will supply into the core business of Denel. The target is to increase the number of ED beneficiaries by no less than 5% year-on-year. Denel has invested R6m during the year under review to develop these beneficiaries, a 25% increase from the prior year.



SUPPLIER DEVELOPMENT STRATEGY

The strategy entails the identification and ring-fencing of **non-specialised** products and services that are readily available in the market and that can be easily sourced from black-owned companies. The projected procurement value that is in the process of being directed towards black-owned companies is estimated to be R140m for the 2014/15 financial year.

The strategy further involves the identification of small black companies already operating in the high-tech or engineering sphere. Preference is given to the companies that manufacture or design products that could be used in the **core products** of Denel. These companies are developed over a period of time depending on the shortcomings identified. Supplier development takes various forms including transfer of relevant skills, assist companies to acquire critical tools or equipment, facilitate collaboration with organisations that develop small black companies, facilitate partnering with established companies, etc. Denel monitors progress against ED plans.

During 2013/14, Denel has seen an improvement in spend trends in line with the strategy. Our plans include broadening the strategy to black youth-owned and companies owned by individuals with disabilities.

SUPPLIER TRANSFORMATION

Denel targeted top suppliers, in a campaign to improve their transformation and B-BBEE status. The campaign involves reviewing suppliers' transformation strategies to ensure alignment to those of Denel. Denel has taken a particular interest in the suppliers' ownership, EE and skills development plans. On a number of key projects suppliers are assisted in strategies to improve their black shareholding and other transformation aspects.

Denel will hold a supplier summit during the 2014/15 financial year with the aim of sensitising suppliers regarding Denel's transformation requirements, providing training in this regard and ultimately improve equitable access to Denel's supply spend.

BUSINESS UNIT COLLABORATION

Business units collaborate on supply chain matters through the group supply chain forum chaired by the group supply chain executive. The forum enables business unit executives to share best practice, discuss supplier performance, transformation, synergies and common strategies to be adopted across the group. The forum is important as it discusses key performance areas and unlocks common challenges within the group.

B-BBEE

The business units were evaluated by Moloto BEE verification agency and the group by Empowerlogic, which are SANAS accredited agencies. Denel 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's B-BBEE focus continues to be on improving employment equity, skills development and preferential procurement while maintaining progress on the other elements of the scorecard. Denel has achieved improved results in the employment equity element of the scorecard.

OCCUPATIONAL HEALTH AND SAFETY

Denel has adopted a comprehensive approach to OHS to protect and preserve the well-being of employees in their course of work. Denel is committed to ensuring a safe work environment for its employees through continuous risk assessment and prioritisation, applying engineering measures to eliminate hazards, safe work procedures, providing protective equipment, preventing and monitoring occupational diseases, as well as heightening safety consciousness. Denel's OHS management system meets legal requirements and is based on OHSAS18001.

All business units are required to be OHSAS18001 certified by 2016 and entities not yet certified are at various stages of preparations for certification ranging from aligning their systems with OHSAS18001 to preparatory audits. The status of certification at the various business units is reflected in the table below:

STATUS			
BUSINESS UNIT	CERTIFICATION DATE	PLANNED CERTIFICATION DATE	NEXT ASSESSMENT DATE
DAe	Not certified	Jul 2014	SABS audit planned
DAv	20 Mar 2013	-	Nov 2014
DD	Not certified	Jul 2015	-
DLS	May 2013	-	May 2014
OTR	Not certified	Jul 2015	-
PMP	May 2007	-	Nov 2014
LMT	Not certified	Jul 2015	-

OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Responsibility for a safe work environment rests with business unit CEOs. A culture of accountability for workplace safety is instilled at all levels of the organisation. This is achieved through appointments of representatives in terms of the OHS Act no. 85 of 1993 and OHS committees that comprises employee and management representatives.

Programmes including identification and conducting of job safety analysis, providing written safe work instructions, material safety data sheets for hazardous chemicals, as well as effective supervision of high risk activities are in place. Visible signage and personal protective clothing improves safety awareness amongst employees.

Denel targets a LTIFR of less than 1 and the current LTIFR of individual businesses is provided in the table below:

	DAe	DAv	DD	DLS	OTR	PMP	LMT
Target	<1	<1	<1	<1	<1	<1	<1
2014	0.05	1.00	0.36	-	-	0.15	0.48
2013	0.34	0.88	-	0.95	0.57	0.22	0.91

Owing to the programmes and procedures that are in place, the organisation has maintained a good safety record and no incidents resulting in fatalities were experienced during 2013/14. Denel has set a LTIFR target for next year of 0.8.

OCCUPATIONAL HYGIENE SURVEYS

Denel conducts occupational hygiene surveys to identify environmental stressors including illumination, noise, ventilation, hazardous chemical substances, as well as ergonomics in order to mitigate exposure and comply with applicable legislation. During the year these surveys were conducted at DAv, DLS and PMP. Apart from high volumes of volatile organic compounds detected at DAv and minor deviations found in the illumination survey at DLS, no significant deviations were detected. Corrective measures have since been put in place for deviations found. Several surveys are scheduled for the 2014/15 year.

OCCUPATIONAL MEDICINE

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 as required by the OHS Act no. 85 of 1993. This assists in determining health baselines, appropriate placements and mitigation of occupational diseases, especially in regard to high-risk jobs.

Procedures undertaken during the year under review are tabulated below:

PROCEDURE	DAe		DAv		DD		DLS		OTR		PMP		LMT*	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Pre-exit medicals	24	147	-	173	49	148	133	92	-	-	175	336	-	-
Periodic medical	260	166	-	181	165	69	148	270	-	-	586	342	-	-
Biological	60	-	-	6	36	31	26	13	7	7	54	76	-	-
Hearing tests	-	327	-	120	34	1	281	322	-	-	1084	807	-	-
Laser eye testing	-	147	-	-	25	27	-	-	-	-	-	-	-	-

* *In process of putting processes and procedures in place to be able to report on the matters above*

OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS

Denel increases awareness through communication and safety training of own employees and subcontractors. Training regarding incident investigations, first-aid emergencies, safety risk assessments, as well as hazardous chemical substances and explosives, reduces the probability of incidents and accidents. Safety training and awareness statistics are tabulated below:

TRAINING TYPE OFFERED	NUMBER OF EMPLOYEES TRAINED PER BUSINESS UNIT													
	DAe		DAv		DD		DLS		OTR		PMP		LMT	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
OHS induction	-	26	82	111	105	36	106	49	8	6	9	53	-	-
HCS	-	2	9	16	32	12	35	4	-	5	180	205	-	-
MSD sheets	-	-	-	16	-	-	35	3	-	-	-	205	-	-
Spill kit	8	-	-	-	-	-	-	-	-	-	75	-	-	-
Scaffolding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OHS representatives	-	6	3	9	16	6	6	3	-	-	2	4	-	3
Hazard and risk assessments	5	-	2	9	-	-	3	29	-	-	2	5	-	-
Explosives areas	-	-	-	30	18	13	6	-	-	-	240	230	-	-
Legal training for supervisors	-	-	7	1	-	-	-	-	1	-	-	-	-	-
First aiders	-	21	17	8	12	15	15	8	11	-	-	89	-	5
Fire fighters	74	-	11	10	16	9	-	4	1	-	-	129	-	5
Emergency team members	-	-	-	1	-	-	-	-	6	5	-	129	-	-
Incident investigators	-	-	4	2	-	-	1	-	3	-	-	4	-	-
Crane and forklift operators	87	41	34	75	33	25	19	51	45	12	-	73	10	6
Lead training	-	-	-	-	-	-	-	-	-	-	60	-	-	-
Noise induced hearing	-	-	4	80	-	-	1	-	-	-	311	-	-	-
Vessels under pressure	-	-	-	-	-	-	-	-	-	-	3	-	-	-
Health and safety awareness	-	-	-	-	111	60	235	462	11	-	879	-	-	-
Working and heights	-	-	-	-	-	-	15	-	-	-	-	-	-	-

ENVIRONMENTAL RESPONSIBILITY

PART SIX

ENVIRONMENTAL RESPONSIBILITY

HIGHLIGHTS

- No instances of non-compliance with environmental laws and regulations;
- No complaints or concerns regarding environmental matters filed;
- No fines were levied nor non-monetary sanctions imposed;
- Successful rehabilitation of Philippi site;
- Spent R14m on environmental protection and related expenditure;
- Established Green Team;
- Commenced carbon footprint assessment for the 2013/14 year; and
- Achieved 10.3% in energy savings.

DENEL ACKNOWLEDGES THAT ITS ACTIVITIES AND OPERATIONS HAVE AN IMPACT ON THE ENVIRONMENT IN WHICH IT OPERATES. IT MANAGES, PROTECTS AND REHABILITATES THE ENVIRONMENT IN LINE WITH ITS ENVIRONMENTAL MANAGEMENT POLICY. THE POLICY IS BASED ON THE PRINCIPLES OF ISO14001 AND PROVIDES GUIDELINES AND MINIMUM REQUIREMENTS FOR EACH CORE BUSINESS UNIT.

Denel is committed to continuously improve environmental management activities and operations, thereby minimising waste, preventing pollution and caring for the environment.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

Environmental responsibilities are addressed throughout the design, manufacture, packaging and transporting processes. This is part of an integrated environmental management 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 stored and handled safely. The recycling or disposal of hazardous substances, as well as segregation and separation of hazardous substances are addressed in these procedures that are reviewed on a regular basis.

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

KEY ENVIRONMENTAL OBJECTIVES

- Protection of species and habitats, and the conservation of biodiversity and natural resources.
- Protection of the environment against disturbance, deterioration, contamination and/or destruction as a result of human activity and structures.
- Providing a remediation plan for all business units.
- Providing a healthy working environment for its employees.

ENERGY

Like many other businesses in the manufacturing sector, Denel requires stable and affordable energy to pursue its highly technical manufacturing activities. To counter rising energy costs in an energy intensive manufacturing environment, Denel rolled out a broad-based energy efficiency programme during 2012/13. The company participates in Eskom's energy conservation scheme (ECS) and as a signatory to the 49M pledge, is committed to reduce its electricity consumption by at least 10% over the initial 12 months and into the future. As a SOC we not only have an opportunity but a responsibility to make a contribution towards becoming more energy efficient in a country that experiences energy supply constraints.

As part of the energy efficiency programme, the company conducts ongoing energy awareness roadshow to bring home the messages of energy savings and responsible consumption of power within the workplace. If we could drive behavioural change in the work environment to achieve just a 1% impact on energy consumption, we can save an additional one million kilowatt hours.

DENEL ENERGY EFFICIENCY PROGRAMME

Phase one
Switch to energy efficient lighting in all Denel offices and manufacturing facilities

Phase two
Optimising boiler systems, hot water systems, compressed air systems, waste heat recovery systems and heating, ventilation and air-conditioning (HVAC) systems

Phase three
Renewable energy generation

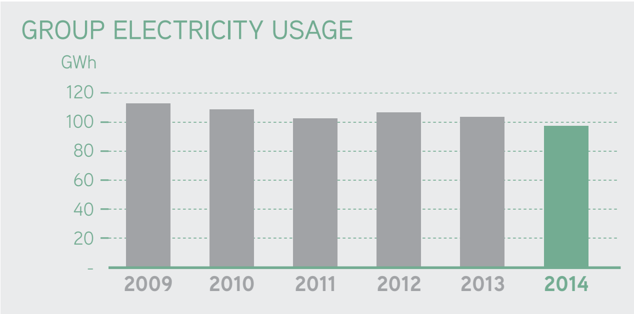
Staff awareness

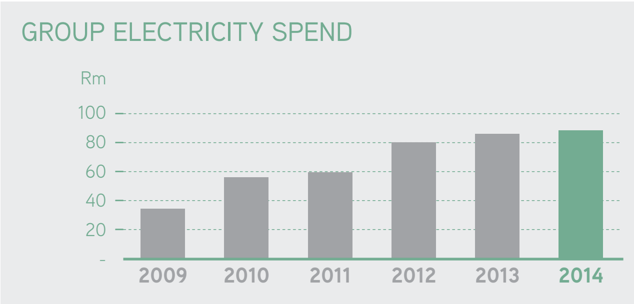
Behavioural change

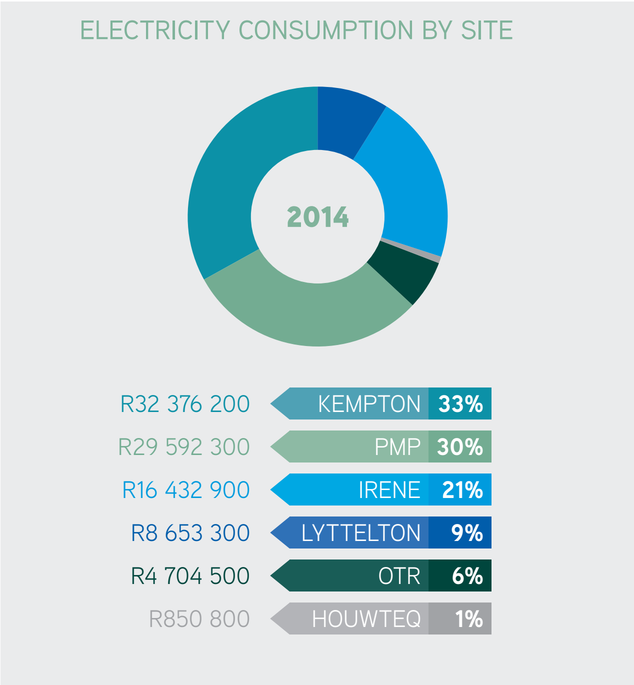
Denel has made considerable progress in implementing the programme:

TARGETED ENERGY REDUCTION PROJECT	ANNUAL PROJECTED REDUCTION/SAVING	EXPECTED DATE OF PROJECT COMPLETION	CAMPUS	PROJECT STATUS
Installation of geyser blankets and reduction of temperatures	Approximately 50 000kWh R42k	Complete	Kempton	Complete
Installation of power factor correction	3300kVA R500k	Complete	Irene	Complete
Convert geysers to heat pumps / solar combination and change shower heads to low-flow	Initial phase: Approximately 299 800kWh R292k	Complete	Kempton/PMP	Complete
Efficient lighting solution	Approximately 20.2GWh R17.6m	Sep 2014	All campuses	Installation complete at all campuses except PMP
Cooling tower efficiency systems	Estimated 150 000kWh R130k	Jul 2014	Kempton	Installation of instrumentation to commence in May 2014
Alternative compressed air solution	Estimated 800 000kWh R700k	Nov 2014	Kempton	Assessing compressor option and completing detailed system design and logistics
Energy efficient boiler system	Approximately 250 000l heavy fuel oil (HFO) R1.5m	Jun 2015	Kempton	Audit in progress
Heat recovery at foundry	To be advised	To be advised	To be advised	Audit to commence

Energy consumption and related expenditure are monitored against the predetermined objectives. The total expenditure for the group is R93m with a total consumption of 100 GWh. Denel has achieved 10.3% vs the targeted 10% savings against the baseline determined for the 12-month period. Progress made in curtailing energy consumption is depicted in the graphs below:



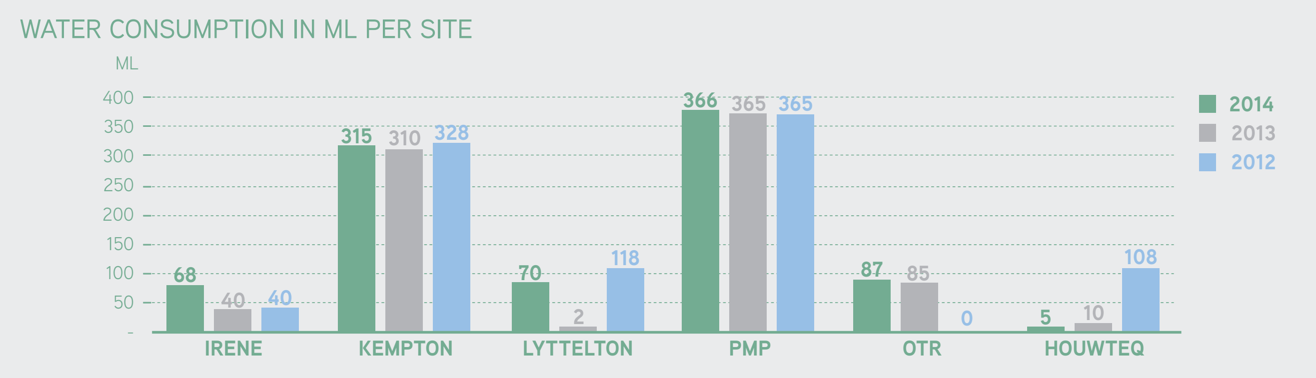




WATER

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 with a view to improve water leak detection and thus reduce water wastage. On the various Denel campuses airconditioning 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 are monitored against the predetermined objectives. The water expenditure for the group is approximately R11m for the year, with a total consumption of 911ML, for the different campuses. This is in line with the company's current activity levels.



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 areas are of particular environmental importance: OTR occupying 43 000 hectares in a conservation area, the Cape Town Philippi site which was recently fully remediated and the Wellington site which will undergo remediation during the next six months.

OTR LAND CONSERVATION

Located near the southernmost tip of Africa between Waenhuiskrans and Cape Infanta OTR forms part of the De Hoop conservation area (approximately 60 000ha), one of the few relatively untouched nature areas remaining along the SA south coast. Apart from its scenic beauty it harbours an unusual diversity of ecosystems with its greatest value being its extensive stretches of unspoilt mountain and coastal vegetation and the exceptionally rich and varied marine life along the unspoiled coastline.

The environmental management system at OTR provides for integrated ecological management between the test range and the adjacent pristine De Hoop Nature Reserve, De Hoop Marine Protected Area, as well as the Air Force Base Overberg. A number of initiatives have been implemented, including a programme to identify indigenous and alien plants. The single largest threat to the natural vegetation and ecosystems at the range is posed by alien invasive plant species, such as the Rooikrans. The mechanical eradication of these adult trees coupled with the biological control of the seed of these trees, constitutes a holistic approach to effectively manage and control these alien plants. Over the past six years, in conjunction with the Department of Environmental Affairs, the mechanical control of Rooikrans resulted in 3 000 hectares of land being successfully cleared. The range's own environmental team is continuously monitoring previously cleared areas. Biological control of Rooikrans by means of the gall fly was introduced at the range during 2000, with early signs of the success becoming visible.

Since the establishment of OTR a comprehensive campaign was launched to ensure that the indigenous game and wildlife of the area are preserved. Considerable success has been achieved with the re-introduction of the Cape Mountain Zebra into the region with a herd of over 90 Cape Mountain Zebra located in this region. Various other game, such as Bontebok and Eland have also managed to thrive in this region due to the intensive interventions by OTR supported by CapeNature. In support of conservation programmes in the region, more than 30 Bontebok were successfully translocated and integrated into the Nuwejaars Wetland Special Management Area (SMA).

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

Preserving of species diversity (natural to the region)	Maximise natural species and habitat diversity	Implementation of a structured fire management programme
Maintaining optimal sex ratios of species	The control and eradication of alien invasive plant species	Identification, mapping and management of rare and endangered species
Identification and management of rare and endangered species	Supplying surrounding areas with indigenous species	Stabilisation and rehabilitation of disturbed areas
Managing the game numbers to the carrying capacity of the area	The re-introduction of species historically present in this region	Fire management

- Game management and fire management plans and policies are in place and regular training is conducted
- Veld management plans, which include hazard identification, risks, control and mitigation of veld fires
- Rehabilitation, remediation, decontamination and demolition plans of the environment are in place

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

In addition, a rich legacy of prehistoric remains and historical buildings and sites are found along the range's coastal area. Although there are no proclaimed national monuments on OTR terrain, all historical buildings of architectural merit, the visvywers (stone fish traps) and other important archaeological sites like Strandloper shell midden heaps have been charted and are conserved. The striking Melkkamer homestead situated on the bank of the De Hoop vlei was transferred to CapeNature and restored to its original splendour.

PHILIPPI SITE REMEDIATION

An unused Denel property in Philippi has been undergoing remediation for a number of years. The remediation was aimed at ensuring that the environment was returned to its original state. This involved the demolition and safe removal of related building material of 220 buildings. Furthermore, the area was cleaned, soil sieved, soil samples taken and tested to ensure conformance to the remediation standards defined in the site characterisation standards. During the year under review, the final building with its energetic contents was demolished by blowing up the building and destroying the energetic contents in this manner.

During the remediation process special care was taken to ensure the environment was preserved. Denel is satisfied that after a long period of extensive planning, consultation with subject matter experts and implementation, the Philippi site was finally remediated.

ACID PLANT WELLINGTON

The old acid plant at the Wellington site was decommissioned after a risk assessment. Upgrading the plant was not financially viable and a new plant was built on site. This 20-year-old plant was gradually decommissioned after a risk assessment indicated it was no longer productive and newer, more efficient technology was becoming available.

The project planning and preparation, including a detailed risk assessment for the demolition, were completed and remediation commenced during April 2014. A similar process to the Philippi site will be followed for recycling, removal and disposal of debris. The process includes building material being sorted, removed and recycled, and glass tubes crushed and relocated to a hazardous waste site. The remaining building material will be crushed and used in the repairing of roads. A soil survey will be conducted and contaminated soil areas restored to original PH levels.

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 ongoing 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:

- Ongoing 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; and
- Established waste management policies to educate and support contractors and suppliers on waste management.

CARBON AND GREENHOUSE GAS EMISSIONS

Denel has established a "Green Team", comprising of environmental specialists at each business unit, to assist the company in determining its carbon and greenhouse gas emissions. The green teams have familiarised themselves with carbon analysis methods and will be performing a comprehensive analysis of carbon and greenhouse gas emissions by mid-2014. This will enable Denel to better manage and respond to associated risks.

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 70 tons (2012/13: 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 1 617KL (2012/13: 712KL) at special landfills where the waste is treated in an environmentally friendly manner. Relates to soluble cutting oil and water only. Safe disposal certificates are received from waste contractors.
Hazardous waste recycled (tons)	Recycled 25 tons (2012/13: 61 tons) as part of environmental management.
Non-hazardous disposed (tons)/(m^3)	Disposed of 3 562 tons and 525m^3 (2012/13: 43 tons and 3 772m^3) at normal landfills by waste removal companies or own transport.
Non-hazardous waste recycled (tons)	Recycled 28 027 tons (2012/13: 476 tons) of paper, plastics, tins and metal shavings which are sold to recycling companies or dealers.

* *Prior year numbers do not include information related to Denel properties*

Denel does not currently screen suppliers using environmental criteria but will investigate the practicality of such screenings in our procurement procedures. The company is not aware of any potential or actual negative environmental impacts that could arise from its supply chain environment.

CONSOLIDATED ANNUAL
FINANCIAL STATEMENTS

PART SEVEN

REPORT OF THE AUDIT AND RISK COMMITTEE

The A&R committee is independent and consists of four independent, non-executive directors which met three times during the year. In line with the amended MOI, the committee will meet at least four times per year in future. Attendance of meetings, date of appointments, and qualifications of the members are included on pages 58 and 46 to 49.

TERMS OF REFERENCE

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 governance of IT and related controls;
- Business misconduct and fraud prevention processes and measures;
- The governance of risk;
- The assurance provided as contained in the combined assurance model; and
- Other matters referred to it by the board or management.

EFFECTIVENESS OF INTERNAL CONTROLS

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 year 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

SizweNtsalubaGobodo supported by Kwinana Equifin are the independent external auditors. 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 no. 25 of 2004 (PAA).

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 2013/14 year.

INTERNAL AUDIT FUNCTION

The committee has overseen a process by which internal audit has performed audits according to a risk based audit plan where the effectiveness of the risk management and internal controls were evaluated. These evaluations were the main input considered by the board in reporting on the effectiveness of internal controls.

GOVERNANCE OF RISK

The committee oversees the implementation of the policy and plan which ensures that risk is managed by means of risk management systems and processes. The committee is satisfied that the appropriate and effective risk management processes are in place.

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, the adequacy of resources of the finance function and experience of the senior members of management responsible for the function.

INTEGRATED REPORT

The committee has considered the integrated report, including the consolidated annual financial statements of the Denel group and Denel SOC Ltd for the year ended 31 March 2014, and based on the information provided to it, is satisfied that the report complies in all material respects with the requirements of the Companies Act, the PFMA and International Financial Reporting Standards (IFRS). Furthermore, the A&R 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 12 June 2014, the committee recommended the adoption of the integrated report by the board of directors.

Martie JV Rensburg
Chairman of the audit and risk committee

INDEPENDENT AUDITORS' REPORT TO PARLIAMENT

ON THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF DENEL SOC LTD FOR THE YEAR ENDED 31 MARCH 2014

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the consolidated and separate financial statements of the Denel SOC Ltd and its subsidiaries as set out on pages 108 to 190 which comprise the consolidated and separate statements of financial position as at 31 March 2014, the consolidated and separate income statements and statements of comprehensive income, statements of changes in equity and the cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 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.

AUDITOR'S 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Denel SOC Ltd and its subsidiaries as at 31 March 2014, and their financial performance and cash flows for the year then ended in accordance with IFRS, the requirements of the PFMA and the Companies Act.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the Directors' report, the report of the Audit Committee's and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited 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 on the reported performance information against predetermined objectives for the selected objectives, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

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 30 of this 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).

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

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 as set out in the General Notice issued in terms of the PAA.

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 significant deficiencies in internal control.

Sizwe Ntsaluba Gobodo Inc

SizweNtsalubaGobodo Inc.
Director: Donovan Simpson
Registered Auditor
Chartered Accountant (SA)
20 Morris Street East
Woodmead
2191

26 June 2014

Sizwe Ntsaluba Gobodo
AUDIT · ADVISORY · FORENSICS

STATEMENTS OF RESPONSIBILITY

DIRECTORS STATEMENT

The board of directors is pleased to present its report and the audited consolidated annual financial statements for the year ended 31 March 2014.

The directors are responsible for the integrity and fair presentation of the consolidated annual financial statements of Denel SOC Ltd and its subsidiaries. The consolidated annual financial statements presented on pages 112 to 194 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 solvency and cash position at 31 March 2014, the cash requirements for at least 12 months from that date and the borrowing facilities available. It also took into account the strong order book, robust business plan and prospects for the future. The going concern including additional factors that were considered is discussed in more detail on page 107 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 pages 102 and 103.

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 2014.

The consolidated annual financial statements of Denel SOC Ltd for the year ended 31 March 2014, as set out on pages 105 to 190, have been prepared under the supervision of Mr Fikile Mhlontlo CA(SA) and were approved by the board of directors on 26 June 2014 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

DIRECTORS' REPORT

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 on page 6, as well as in the operations section on page 31 of this report.

FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2014 Rm	2013 Rm
Revenue	4 588	3 918
Gross profit	899	826
Other income	204	231
Operating expenditure	(879)	(940)
Earnings before interest and tax (EBIT)	282	189
Net finance costs	(92)	(107)
Net profit	194	71

Denel posted a profit of R194m (2012/13: R71m), a significant 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 saving initiatives, as well as the impact of the weakened ZAR. For further information refer to the financial results section on pages 24 to 30.

EXTERNAL INTEREST EXPENSE ON BORROWINGS

The group is funded mainly by interest-bearing borrowings which are backed by government guarantees. The average borrowings amounted to R1.875bn throughout the year resulting in net external interest paid of R84m. This amount excludes the unwinding of interest on long-term provisions and interest received on pension assets. Also, refer to the funding section of this report on page 106.

IMPAIRMENT OF ASSETS

Impairment assessments were performed on assets that demonstrated possible impairment indicators. The value in respect of certain machines that were previously impaired was reinstated. The net value included in the consolidated annual financial statements is R42m. The business case for a specific MRO initiative was evaluated and it indicated possible impairment of assets related to the initiative. The value of the assets was based on fair value less cost to sell which resulted in an impairment loss of R22m.

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, namely the Hoefyster programme. The development phase is near completion and Denel was awarded the production order for the programme which will be executed over a period of ten years. The value of the programme is R9.4bn and revenue of R176m was recognised during the 2013/14 financial year.

ARMOURED FIGHTING VEHICLE

Denel is a prime contractor in Southeast Asia to develop, manufacture, supply, deliver and commission a turret for 8x8 armoured fighting vehicles. 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. The value of the programme is R3.7bn and revenue of R263m was recognised during the 2013/14 financial year.

A400M

Denel is contracted as a programme partner for the design, development, manufacture, supply and supporting activities of the WFF, TS and RSS structural components for the Airbus A400M. Denel doubled its production rate from eight WFF and TS ship sets to 16 ship sets in 2013/14. The first RSS article production parts were manufactured and accepted by Airbus in August 2013. Full RSS shipset production will begin in mid-2014/15. The value of the programme is R3.3bn and revenue of R355m was recognised during the year.

AVIONICS AND NAVIGATION UPGRADE

Denel is upgrading the avionics and navigation system on board the Oryx helicopter. It is a fixed price, fixed-term contract for an amount of R492m that was originally due to be completed by June 2012 and includes the development, qualification and production phases of 38 aircraft. However, due to extended engineering and flight test efforts, the programme was delayed. The new completion date is scheduled for January 2016 and the programme is on track to meet the newly agreed timeline.

Qualification and certification of the system upgrade has been completed. To date a total of ten aircraft have been modified of which some have been released to the customer for operational deployment, whilst others are due for scheduled services. A contract variation order addressing changes in timelines was received from the client.

The programme accounted for revenue of R30m during the year. The provision for onerous contracts in respect of this project is R155m.

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 2014/15.

Discussions are ongoing regarding follow-on collaborative projects and work share strategies. The value of the programme is R2bn and revenue of R152m was recognised during the year.

SEEKER 400

Denel invested in the development of a new competitive UAVS, the Seeker 400. Significant progress has been made in the Seeker 400 development programme and the maiden flight and associated tests completed successfully during the year under review.

Denel's investment in the development amounted to R60m and projects attached to this development accounted for revenue of R89m during the year.

PRECISION-GUIDED MUNITIONS

Denel concluded a contract in 2011 to the value of R1.2bn for the sale of precision-guided munitions. The first 62 kits were successfully delivered during the year under review. Both parties are pleased with the progress. 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, which also contributes to Denel's offset prgramme. The programme accounted for revenue of R299m 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 are accounted for separately in 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 82% 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 34.1 of the consolidated annual financial statements.

FUNDING

Denel has a registered Domestic Medium Term Note (DMTN) programme of R2.2bn that allows for short- and medium-term debt issuance. Of the R2.2bn, an amount of R1.85bn is government guaranteed and the guarantee matures on 30 September 2017. Denel will only apply to have this guarantee extended for a further period if required. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R1.65bn. The debt consists of an R815m three-year corporate bond, R585m five-year corporate bond and short-term commercial paper of R450m. The balance of the DMTN of R350m is unsecured and Denel utilised R200m during the year under review. The group's borrowings are at an average interest rate of 6.57% that includes an average overnight borrowing rate of 6.6%, and an average Commercial Paper Programme interest rate of 6.36%, which resulted in borrowing cost of R116m during the year. Denel engages with its shareholder on an ongoing basis regarding the requirement of a long-term sustainable funding model.

FitchRatings has upgraded Denel's rating from AA(zaf) long-term and F1+(zaf) short-term to AAA(zaf) and F1+(zaf) outlook stable during the year. The rating agency is relying strongly on continued shareholder support for the group, Denel's strong order book of more than R32bn and the success of the financial turnaround which led to Denel reporting moderate profits over the past three years. It further noted that Denel has managed to diversify its revenue base away from the SA defence sector with 50% of revenue now generated from exports, most notably to the Middle East and Southeast Asia. FitchRatings expects the export business to remain an important aspect of Denel's revenue growth.

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

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 2014;
- The availability of sufficient funds, including borrowing facilities, to meet the group's requirements over the next 12 months;
- The forecasted shareholder's equity for the foreseeable future will remain positive;
- The positive business results projected over the next five years and risks identified in the business plan underpinned by the confirmed order book of R32bn; and
- 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.

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 which is reviewed by the A&R committee on a quarterly basis. 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. It further monitors the system, detects and addresses deficiencies that may lead to 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 11, 12 and 36 of the consolidated annual financial statements.

CAPITAL EXPENDITURE

The board approved capital expenditure of R203m whereas R216m was utilised, mainly in upgrading the business units' production facilities.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the shareholder. Directors do not have the authority to issue shares of the company. There was no change in the authorised share capital of the company for the financial year under review.

DIVIDENDS

No dividend was recommended for the 2013/14 year (2012/13: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated annual financial statements comply with IFRS.

AUDITORS

The consolidated annual financial statements are audited by SizweNtsalubaGobodo. The statutory auditor for the forthcoming year will be confirmed at the AGM.

DIRECTORATE

The directorate remained unchanged during 2013/14.

GROUP COMPANY SECRETARY

The group company secretary for the period under review was Ms Elizabeth Africa. Her business and postal addresses, which is also the address of the registered office of the company, are stated below:

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 2014 and 26 June 2014.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 March 2014

	NOTES	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
ASSETS					
Non-current assets		2 293	2 177	2 180	2 062
Property, plant and equipment	8	861	733	655	614
Investment properties	9	534	482	525	473
Intangible assets	10	182	167	167	154
Investments in subsidiaries	11			333	203
Investments in associated companies	12	701	639	500	477
Loans and receivables	13	-	139	-	139
Deferred tax assets	14	15	17	-	2
Current assets		5 712	4 497	5 237	4 186
Inventories	15	1 020	713	887	624
Trade and other receivables	16	2 930	2 263	2 784	2 121
Loans and receivables	13	117	182	117	182
Other financial assets	18.1	132	42	132	42
Cash and short-term deposits	19.2	1 512	1 257	1 316	1 177
Cash held on behalf of associated companies	19.3	1	40	1	40
Non-current assets held for sale	20	84	104	84	104
Total assets		8 089	6 778	7 501	6 352
EQUITY AND LIABILITIES					
Equity					
Issued capital	21.2	1 225	1 225	1 225	1 225
Share premium	21.3	4 951	4 951	4 951	4 951
Revaluation reserve		43	43	43	43
Accumulated loss		(4 561)	(4 755)	(4 854)	(5 052)
Total equity attributable to equity holders of the parent		1 658	1 464	1 365	1 167
Non-controlling interest	22	6	8		
Total equity		1 664	1 472	1 365	1 167
Non-current liabilities		3 941	2 841	3 930	2 829
Loans and borrowings	23	1 616	1 406	1 607	1 398
Advance payments received	24	2 066	1 169	2 066	1 169
Provisions	25.1	259	265	257	260
Deferred tax liabilities	14	-	1	-	2
Current liabilities		2 484	2 465	2 206	2 356
Trade and other payables	26	1 100	946	1 051	885
Loans and borrowings	23	259	507	259	490
Other financial liabilities	18.2	106	78	106	78
Advance payments received	24	628	410	439	401
Income tax payables		1	-	-	-
Provisions	25.2	387	523	351	502
Preference dividends payable	22	3	1		
Total liabilities		6 425	5 306	6 136	5 185
Total equity and liabilities		8 089	6 778	7 501	6 352

CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

		GROUP		COMPANY	
		2014	2013	2014	2013
	NOTES	Rm	Rm	Rm	Rm
CONTINUING OPERATIONS					
Revenue	2	4 588	3 918	4 115	3 434
Cost of sales	3	(3 689)	(3 092)	(3 210)	(2 639)
Gross profit		899	826	905	795
Other income	4	204	231	236	268
Other operating expenses	3	(879)	(940)	(838)	(816)
Operating profit		224	117	303	247
Finance costs	6.1	(140)	(143)	(150)	(140)
Finance income	6.2	48	36	45	39
Share of profit of associated companies	12	58	72		
Profit before tax		190	82	198	146
Income tax expense	7	4	(11)	-	-
Profit for the year		194	71	198	146
Other comprehensive income		-	-	-	-
Total comprehensive income for the year net of tax		194	71	198	146
Profit for the year is attributable to:					
Equity holders of the parent		194	71		
Non-controlling interest		-	-		
		194	71		

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2014

		TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
		Issued capital	Share premium	Revaluation reserve [1]	Accumulated loss	Total	Non-controlling interest	Total equity
	NOTES	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
Balance at 1 April 2012		1 225	4 251	43	(4 824)	695	-	695
Acquisition of non-controlling interest	22	-	-	-	(2)	(2)	9	7
Preference dividends payable							(1)	(1)
Issue of share capital	21.3	-	700			700	-	700
Total comprehensive income					71	71	-	71
Profit for the year					71	71	-	71
Other comprehensive income					-	-	-	-
Balance as at 31 March 2013		1 225	4 951	43	(4 755)	1 464	8	1 472
Acquisition of non-controlling interest	22	-	-	-	-	-	-	-
Preference dividends payable							(2)	(2)
Issue of share capital	21.3	-	-			-	-	-
Total comprehensive income				-	194	194	-	194
Profit for the year				-	194	194	-	194
Other comprehensive income				-	-	-	-	-
Balance as at 31 March 2014		1 225	4 951	43	(4 561)	1 658	6	1 664
COMPANY								
Balance at 1 April 2012		1 225	4 251	43	(5 198)	321		
Issue of share capital	21.3	-	700			700		
Total comprehensive income				-	146	146		
Profit for the year				-	146	146		
Other comprehensive income				-	-	-		
Balance as at 31 March 2013		1 225	4 951	43	(5 052)	1 167		
Issue of share capital	21.3	-	-			-		
Total comprehensive income				-	198	198		
Profit for the year				-	198	198		
Other comprehensive income				-	-	-		
Balance as at 31 March 2014		1 225	4 951	43	(4 854)	1 365		

1 *The revaluation reserve relates to fair value adjustments made to property, plant and equipment on reclassification to investment properties*

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 March 2014

	NOTES	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
OPERATING ACTIVITIES					
Net cash flows from/(used in) operating activities		474	(151)	404	(104)
Receipts from customers		4 086	3 414	3 614	2 852
Payments to suppliers and employees		(4 674)	(3 792)	(4 084)	(3 312)
Cash utilised in operations	28	(588)	(378)	(470)	(460)
Increase in advance payments received	24	1 115	212	935	238
Interest paid		(116)	(8)	(125)	(6)
Interest received		38	17	35	20
Dividends received	4	19	16	29	104
Income tax paid		6	(10)	-	-
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(206)	(167)	(268)	(333)
Purchases of property, plant and equipment	8	(216)	(146)	(151)	(118)
Proceeds from disposal of property, plant and equipment		3	10	3	1
Purchases of investment properties	9	-	(12)	-	(4)
Proceeds from disposal of investment properties		-	1	-	1
Purchases of intangible assets	10	(31)	(60)	(29)	(56)
Proceeds on disposal of intangible assets		-	1	-	1
Repayments of loan advance to associated companies		62	40	62	40
Acquisition of additional shares in an associated company	12	(23)	-	(23)	-
Acquisition of additional shares in a subsidiary		(1)	-	-	(850)
Advances (from)/to subsidiaries		-	-	(130)	653
Net cash flows before financing activities		268	(318)	136	(437)
FINANCING ACTIVITIES					
Net cash flows (used in)/from financing activities		(52)	521	(36)	625
Repayments of interest-bearing borrowings		(1 133)	(1 495)	(1 114)	(1 495)
Proceeds from interest-bearing borrowings		1 120	1 305	1 117	1 400
Proceeds from share capital issued		-	700	-	700
Proceeds from minority shareholder		-	(9)		
(Decrease)/Increase in cash managed on behalf of associated companies		(39)	20	(39)	20
Net increase in cash and cash equivalents		216	203	100	188
Cash and cash equivalents					
At the beginning of the year		1 297	1 094	1 217	1 029
At the end of the year	19	1 513	1 297	1 317	1 217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 (ZAR), rounded off to the nearest million.

The consolidated annual financial statements for the year ended 31 March 2014 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 the 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the 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, its subsidiaries and associated companies. The accounting policies have been applied consistently throughout the group.

Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statements and statements of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

Investments in subsidiaries and associated companies

When the group ceases to have control, any retained interest in the business unit is re-measured 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 ceases. 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.

In the separate annual financial statements, investment in subsidiaries and associated companies that are not classified as held for sale in terms of IFRS 5 Non-current assets held for sale and discontinued operations, are accounted for at cost, less any impairment.

Associated companies 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 profits 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 profit or loss 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 the relevant associated company.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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 are eliminated to the extent of the group's interest in the business unit.

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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 statement:

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; and
- 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 has been determined based on the cabinet memorandum (decision) of June 2008, representing both the customer and the shareholder. Management made certain assumptions regarding the cost to completion, i.e. estimated labour hours, material costs and escalations, in line with the cabinet memorandum.

A400M contract

The contract costs to completion on the A400M contract have been calculated based on management's best estimates regarding labour hours, material costs and escalations, taking into account the technical and industrial uncertainties attached to the programme.

Oryx upgrade programme

The programme is a fixed-price fixed-term contract that was originally due to be completed by June 2012. The cost to completion, i.e. estimated labour hours, material costs and escalations, was revised in line with the anticipated completion date of January 2016.

Impairment of property, plant and equipment

The group's impairment assessments 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. Impairment assessments were performed on assets that demonstrated possible impairment indicators, including available capacity against the requirements.

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 0% 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. Management performed a detailed study in consultation with external specialists in the Land Systems business unit which was identified as the most likely area to have such contamination. Following the study, a high level review of the remaining business units 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 5.83% (2012/13: 6.1%) have been discounted at an interest rate of 8.2% (2012/13: 7.9%), 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 27.5 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; and
- Exchange rates as at year-end have been used to convert the obligations to ZAR.

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.

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1.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.3.1 REVENUE RECOGNITION

Contract revenue

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; and
   ii) They are capable of being reliably measured.

c) A claim is an amount that the group seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:

   i) Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
   ii) The amount that is probable will be accepted by the customer and can be measured reliably.

An expected loss on a contract is recognised immediately in profit or loss.

Sale of goods and services

Revenue from sale of goods and services 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.

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 income from investment properties.

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 (OCI).

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.

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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; and
- 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 consolidated statements 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 de-recognition 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,

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cost of sales, operating costs or a related asset to reflect a ZAR 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 offset 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.

De-recognition of financial assets and financial liabilities financial assets

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 it 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 de-recognition 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 annual 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 ZAR, which is the group's functional and presentation currency.

Recording of foreign transactions

If 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 ZAR 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 ZAR 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. This falls into level 3 of the fair value hierarchy.

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 creditworthiness, 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 revisionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

Income from investment properties is accounted for as described in the revenue recognition policy. 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.

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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.

De-recognition

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 de-recognition 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 consolidated statements 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.

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 and finished products

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 REVENUE CONTRACTS

In the case of comprehensive and/or long-term revenue 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 (refer to note 34.1).

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.

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for the year ended 31 March 2014

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 non-asset or non-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; and
- 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 gain or loss 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 gain or loss 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 OCI 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 2014, the following standards and interpretations were in issue but not yet effective:

STANDARD, AMENDMENTS, OR INTERPRETATION	TITLE	ISSUE DATE	EFFECTIVE DATE
IFRS 9	Financial instruments	Nov 2009	To be determined
IFRS 7	Financial instruments: Disclosures — Amendments requiring disclosures about the initial application of IFRS 9	Dec 2011	To be determined
IFRS 10	Consolidated financial statements — Exception to the rule that all subsidiaries must be consolidated	Oct 2012	1 Jan 2014
IFRS 12	New disclosures required for investment entities	Oct 2012	1 Jan 2014
IAS 19	Employee benefits - amendments to employee contributions	Nov 2013	1 Jul 2014
IAS 27	Consolidated and separate financial statements — Account for interests in investment entities	Oct 2012	1 Jan 2014
	Annual improvements 2010-2012 cycle	May 2012	1 Jul 2014
IFRS 1	First-time adoption of international financial reporting standards — Clarification of the meaning of effective IFRSs		
IFRS 2	Share-based payment — Definitions of performance and service conditions — Definitions of vesting and market conditions		
IFRS 3	Business combinations — Measurement requirements for all contingent consideration assets and liabilities included under IFRS 9		
IFRS 8	Operating segments — Disclosure requirements regarding judgements made in applying aggregation criteria and certain reconciliations		
IFRS 9	Financial Instruments — Measurement requirements for all contingent consideration assets and liabilities included under IFRS 9		
IFRS 13	Fair value measurement — Clarification of the measurement requirements for short-term receivables and payables		
IAS 16	Property, plant and equipment — Amendments to revaluation method: interim financial reporting and segment information for total assets and liabilities		
IAS 24	Related party disclosures — Amendments to the definitions and disclosure requirements for key management personnel		
IAS 38	Intangible assets — Amendments to revaluation method: proportionate restatement of accumulated depreciation		
	Annual improvements 2011-2013 cycle	Nov 2012	1 Jul 2014
IFRS 3	Business combinations — Amendments scope of formation of joint arrangements		
IFRS 13	Fair value measurement — Clarification that portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9		
IAS 40	Investment property — Clarification of interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 consolidated annual financial statements. The main feature 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 business units' 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 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 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 Financial instruments: Disclosures relate to additional disclosures requirement on the transition from IAS 39 to IFRS 9.

IFRS 10 Consolidated financial statements

The amendment entails an exception to the principle that all subsidiaries must be consolidated. It requires that entities meeting the definition of 'investment entities' must account for investments in subsidiaries at fair value under IFRS 9 Financial instruments, or IAS 39 Financial instruments: Recognition and measurement. The group does not foresee that the standard will significantly impact the group when it is adopted.

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, associated companies and unconsolidated structured entities. The amendment includes further disclosure required for investment entities. The group does not foresee that the standard will significantly impact the group when it is adopted.

IAS 19 Employee benefits

Amendments to defined benefit plans regarding employee contributions: The requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended. The group does not foresee that the standard will significantly impact the group when it is adopted.

IAS 27 Consolidated and separate financial statements

Requirement to account for interests in 'investment entities' at fair value under IFRS 9 Financial instruments, or IAS 39 Financial instruments: Recognition and measurement, in the separate financial statements of a parent. The group does not foresee that the standard will significantly impact the group when it is adopted.

Annual improvements (May 2012 and November 2012)

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.

IFRS 2 Share-based payment. In this amendment, the definitions of performance conditions and service conditions and the definitions of vesting conditions and market conditions are clarified and amended.

IFRS 3 Business combinations. In this amendment, the measurement requirements for all contingent consideration assets and liabilities including those accounted for under IFRS 9 are amended, as well as amendments to the scope of formation of joint arrangements.

IFRS 8 Operating segments. In this amendment, some of the disclosure requirements regarding the judgements made by management in applying the aggregation criteria, as well as those to certain reconciliations are required.

IFRS 13 Fair value measurement. In this amendment, the measurement requirements for those short-term receivables and payables are clarified. The November cycle clarifies that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9.

IAS 16 Property, plant and equipment. This amendment requires proportionate restatement of accumulated depreciation during revaluation.

IAS 24 Related parties. Amendments to the definitions and disclosure requirements for key management personnel.

IAS 38 Intangible assets: Revaluation method. This amendment clarifies the proportionate restatement of accumulated depreciation.

IAS 40 Investment property. This amendment clarifies the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
2 REVENUE				
Contract revenue [1]	4 512	3 846	4 031	3 349
Income from investment properties	76	72	84	85
	4 588	3 918	4 115	3 434
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 10)	16	16	16	16
Software	16	16	16	16
Auditors' remuneration	10	11	9	9
Current year	10	10	9	9
Other	-	1	-	-
Costs of inventories recognised as an expense (refer note 15)	1 095	946	988	892
Depreciation (refer note 8)	128	97	84	76
Buildings	13	11	11	10
Computer equipment	12	16	11	15
Office furniture	1	6	1	2
Plant and machinery	91	57	50	42
Vehicles	11	7	11	7
Directors' remuneration [2]	14	13	14	13
Executive directors	11	10	11	10
Non-executive directors	3	3	3	3
Impairment (reversed)/raised	(88)	(67)	(21)	(22)
Intangible assets (refer note 10)	-	(5)	-	(5)
Inventories (refer note 15)	(38)	(56)	(37)	(7)
Investments in subsidiaries (refer note 11)	-	-	-	1
Property, plant and equipment (refer note 8)	(44)	(2)	22	(2)
Trade and other receivables (refer note 16)	(6)	(4)	(6)	(9)
Loss on disposal of assets	1	2	1	-
Property, plant and equipment (refer note 28)	1	2	1	-
Operating expenses for investment properties	105	125	105	125
Operating lease payments	71	73	64	70
Buildings	62	63	58	63
Computer equipment	4	4	3	3
Office furniture	4	3	3	3
Plant and machinery	1	3	-	1
Research and development costs [3]	456	428	454	426
Staff costs	1 516	1 663	1 324	1 484
Medical fund contributions	79	87	73	75
Pension costs: Defined contribution plan	109	107	93	88
Services costs	1 298	1 417	1 132	1 138
Staff and related provisions	23	12	19	148
Termination benefits paid	7	26	7	21
Other long-term benefit contributions	-	14	-	14

1 *Contract revenue also includes the sale of goods and services*

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

3 *The R&D costs are mainly customer-funded. This does not include an amount of R30m (2012/13: R45m) charged against provisions and R21m (2012/13: R55m) that has been capitalised*

	GROUP		COMPANY	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
4 OTHER INCOME				
Administration and management fees	1	-	5	7
Dividends received			29	104
Fair value adjustment on investment properties (refer note 9)	32	33	32	31
Net gains of financial instruments (refer note 5)	150	79	129	73
Profit on disposal of property, plant and equipment (refer note 28)	-	1	-	-
Other [1]	21	118	41	53
	204	231	236	268
5 NET GAINS ON FINANCIAL INSTRUMENTS				
Settled transactions	97	57	76	52
Gains	142	90	121	84
Losses	(45)	(33)	(45)	(32)
Fair value adjustments	(36)	(6)	(36)	(7)
Gains	56	82	56	78
Losses	(92)	(88)	(92)	(85)
Firm commitments remeasurement	89	28	89	28
Gains	105	47	105	47
Losses	(16)	(19)	(16)	(19)
	150	79	129	73
6 NET FINANCE COSTS				
The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables)				
6.1 FINANCE COSTS				
Current interest-bearing loans and borrowings	118	118	117	115
Non-current interest-bearing loans and borrowings	2	1	2	-
Intergroup finance costs			11	1
Finance costs on financial liabilities	120	119	130	116
Unwinding of discount on provisions	20	24	20	24
	140	143	150	140

1 *Other is mainly made up of scrap sales, insurance claims, low claim bonuses, discount received and the prior year includes a gain of R78m that related to the early settlement of a loan*

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	GROUP		COMPANY	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
6.2 FINANCE INCOME				
Gross interest received	48	36	45	33
Intergroup finance income			-	6
	48	36	45	39
Net finance costs	92	107	105	101
7 INCOME TAX EXPENSE				
SA Normal tax [1]				
Current tax	(5)	7	-	-
Deferred tax (refer note 14)	1	4	-	-
	(4)	11	-	-
	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	(2.1)	13.4	-	-
Adjustment in tax rate due to:	30.1	14.6	28.0	28.0
Exempt income	1.5	30.5	4.2	20.1
Deferred tax asset not recognised	16.0	14.3	19.7	31.3
Taxable at capital gains tax rate	-	(3.7)	-	(2.0)
Share of associated companies	8.4	24.7	-	-
Other	4.2	(51.2)	4.1	(21.4)
SA Normal tax rate	28.0	28.0	28.0	28.0
	Rm	Rm	Rm	Rm
The calculated tax losses available for offset against future taxable income are as follows:				
Calculated income tax losses	5 039	5 683	3 142	4 568
Capital gains tax losses	168	171	168	171
Total calculated tax losses	5 207	5 854	3 310	4 739
Calculated tax losses utilised	-	-	-	-
Net available calculated tax losses	5 207	5 854	3 310	4 739

1 No provision for SA Normal tax has been made for all companies within the group that are in an assessed loss position

	Land and buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
8 PROPERTY, PLANT AND EQUIPMENT						
GROUP						
2014						
Carrying value at 1 April	254	23	7	412	37	733
Additions	27	52	1	121	15	216
Depreciation for the year (refer note 3)	(13)	(12)	(1)	(91)	(11)	(128)
Disposals	-	(1)	-	(1)	(2)	(4)
Impairment reversal for the year (refer note 3)	-	-	-	44	-	44
Carrying value at 31 March	268	62	7	485	39	861
Cost	435	215	26	1 572	114	2 360
Accumulated depreciation and impairment	(167)	(153)	(17)	(1 087)	(75)	(1 499)
Carrying value at 31 March	268	62	7	485	39	861
2013						
Carrying value at 1 April	240	31	8	374	38	691
Additions	26	10	5	99	6	146
Business acquired	-	-	-	3	-	3
Depreciation for the year (refer note 3)	(11)	(16)	(6)	(57)	(7)	(97)
Disposals	(1)	(2)	-	(8)	-	(11)
Impairment reversal for the year (refer note 3)	-	-	-	2	-	2
Transfer to investment properties (refer note 9)	-	-	-	(1)	-	(1)
Carrying value at 31 March	254	23	7	412	37	733
Cost	408	169	24	1 453	102	2 156
Accumulated depreciation and impairment	(154)	(146)	(17)	(1 041)	(65)	(1 423)
Carrying value at 31 March	254	23	7	412	37	733

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8 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	Land and buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
2014						
Carrying value at 1 April	245	22	6	304	37	614
Additions	22	49	2	64	14	151
Depreciation for the year (refer note 3)	(11)	(11)	(1)	(50)	(11)	(84)
Disposals	-	(1)	-	(1)	(2)	(4)
Impairment raised for the year (refer note 3)	-	-	-	(22)	-	(22)
Carrying value at 31 March	256	59	7	295	38	655
Cost	421	199	22	1 203	112	1 957
Accumulated depreciation and impairment	(165)	(140)	(15)	(908)	(74)	(1 302)
Carrying value at 31 March	256	59	7	295	38	655
2013						
Carrying value at 1 April	239	30	7	254	10	540
Additions	16	9	1	88	4	118
Business acquired	-	-	-	3	30	33
Depreciation for the year (refer note 3)	(10)	(15)	(2)	(42)	(7)	(76)
Disposals	-	(2)	-	-	-	(2)
Impairment reversal for the year (refer note 3)	-	-	-	2	-	2
Transfer to investment properties (refer note 9)	-	-	-	(1)	-	(1)
Carrying value at 31 March	245	22	6	304	37	614
Cost	398	154	21	1 141	101	1 815
Accumulated depreciation and impairment	(153)	(132)	(15)	(837)	(64)	(1 201)
Carrying value at 31 March	245	22	6	304	37	614

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

Certain property, plant and equipment were impaired in the recent past due to a lack of orders, which were re-instated to a value of R42m (2012/13: R2m). During the year under review certain property, plant and equipment were impaired to a value of R22m (2012/13: Rnil).

Plant and machinery includes assets under construction of R9m (2012/13: R30m) for the group and R9m (2012/13: R24m) for the company.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
9 INVESTMENT PROPERTIES				
Fair value at 1 April	482	450	473	450
Additions	-	4	-	-
Business acquired	-	8	-	4
Fair value adjustment (refer note 4)	32	33	32	31
Transfer from/(to) assets held for sale (refer note 20)	20	(14)	20	(13)
Transfer from property, plant and equipment (refer note 8)	-	1	-	1
Fair value at 31 March	534	482	525	473

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. The highest and best use of the investment properties do not differ from its current use.

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	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
10 INTANGIBLE ASSETS				
Development costs	145	122	139	118
At cost	169	146	163	142
Accumulated amortisation and impairment	(24)	(24)	(24)	(24)
Goodwill [1]	9	9	-	-
At cost	79	79	-	-
Accumulated impairment	(70)	(70)	-	-
Software	28	36	28	36
At cost	114	106	114	106
Accumulated amortisation	(86)	(70)	(86)	(70)
Total carrying value at 31 March	182	167	167	154
Reconciliation				
Development costs				
Carrying value at 1 April	122	67	118	67
Capitalised during the year	23	55	21	51
Carrying value at 31 March	145	122	139	118
Goodwill				
Carrying value at 1 April	9	-	-	-
Acquistion external	-	9	-	-
Carrying value at 31 March	9	9	-	-
Software				
Carrying value at 1 April	36	43	36	43
Amortisation for the year (refer note 3)	(16)	(16)	(16)	(16)
Business acquired	-	1	-	-
Capitalised during the year	8	4	8	5
Disposal external	-	(1)	-	(1)
Impairment reversal for the year (refer note 3)	-	5	-	5
Carrying value at 31 March	28	36	28	36
Total carrying value at 31 March	182	167	167	154

1 *On 11 May 2012, Denel acquired 51% of the issued ordinary shares of LMT Holdings (Pty) Ltd, an unlisted company, whose core business is in the provision of protected vehicle solutions. LMT Holdings (Pty) Ltd has three subsidiaries, i.e. LMT Products (Pty) Ltd, LMT Engineering (Pty) Ltd and LMT Properties (Pty) Ltd. The company has acquired LMT Holdings (Pty) Ltd to broaden its landward capability for a new product range. Goodwill has been assessed for impairment and not impaired. 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. The goodwill of R9m (2012/13: 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. Since acquisition the name was changed to LMT Holdings SOC Ltd (RF)*

	COMPANY	
	2014	2013
	Rm	Rm
11 INVESTMENTS IN SUBSIDIARIES		
Unlisted shares	1 710	1 710
Net loans	14	(116)
Amounts due by subsidiaries	336	336
Amounts due to subsidiaries	(322)	(452)
Gross investments	1 724	1 594
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	333	203
Reconciliation of carrying value of investments in subsidiaries:		
Gross investments	1 724	1 594
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	333	203
The accumulated impairment loss on investments in subsidiaries is as follows:		
Unlisted shares	1 055	1 055
Balance at 1 April	1 055	789
Impairment raised for the year (refer note 3)	-	266
Loans	336	336
Balance at 1 April	336	601
Impairment reversal for the year (refer note 3)	-	(265)
	1 391	1 391

A detailed breakdown of the investments in subsidiaries is contained in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

12 INVESTMENTS IN ASSOCIATED COMPANIES

The group holds a 49% interest in Turbomeca Africa (Pty) Ltd. The year-end of TMA is 31 December. TMA is a world leader in design, manufacturing and sale of gas turbines for small- and medium-powered helicopters.

The group holds a 30% interest in Cassidian Optronics (Pty) Ltd. The year-end of Cassidian Optronics (Pty) Ltd is 31 December. Cassidian Optronics (Pty) Ltd is a global supplier in the development and production of optronics, optical and precision-engineered products for military and security applications.

The group holds a 49% interest in Rheinmetall Denel Munition (Pty) Ltd. The year-end of RDM Ltd is 31 December. RDM specialises in the design, development 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.

The group holds a 49% interest in Tawazun Dynamics LLC. The year-end of Tawazun Dynamics LLC is 31 December. Tawazun Dynamics is a UAE based global supplier of precision-guided munitions.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
Cost of investments in associated companies				
Unlisted shares	500	477	500	477
Net share of results in associated companies	201	162		
Share of current year profit before tax	74	93		
Share of current year tax	(16)	(21)		
Share of current year profit after tax	58	72		
Dividends received	(19)	(16)		
Accumulated profit at 1 April	162	106		
Total net investments in associated companies	701	639	500	477
The following represents the summarised financial information of the associated companies:				
Total assets	2 736	2 334		
Non-current assets	712	592		
Current assets	2 024	1 742		
Total liabilities	1 676	1 180		
Non-current liabilities	218	62		
Current liabilities	1 458	1 118		
Net assets	1 060	1 154		
Group share of associated companies' net assets	469	519		
Revenue	2 524	3 228		
Group share of revenue	1 133	1 476		
Group share of profit before tax	74	93		

A detailed breakdown of the investments in the associated companies is contained in note 36. Associated companies' figures are not material on an individual basis, thus for disclosure purposes, all figures are aggregated.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
13 LOANS AND RECEIVABLES				
Interest-bearing loans and receivables				
Associated companies (refer note 13.1)	-	17	-	17
Loans at amortised cost	-	62	-	62
Less: Current portion included in current loans receivable	-	(45)	-	(45)
Pension asset (refer note 13.2)	-	122	-	122
Gross amount receivable	117	259	117	259
Less: Current portion included in current loans receivable	(117)	(137)	(117)	(137)
Total non-current interest-bearing loans and receivables	-	139	-	139
Total current interest-bearing loans and receivables	117	182	117	182
Refer note 32.1 and 32.4	117	321	117	321

13.1 The loans in the prior year (2012/13) relates to two separate loans to an associated company (RDM). The non-current loan of Rnil (2012/13: R17m) was not repayable before January 2014 and earned interest at a rate based on the three-month JIBAR plus 1.4% per annum. The loan was granted in the same proportion as per the shareholding. The current loan was a revolving credit facility granted to the associated company to meet its short-term bridging finance requirements and was repaid on 25 March 2014, and earned interest at a rate based on the three-month JIBAR plus 1.4% per annum. The parent company of the associated company guaranteed 51% of the outstanding balance of the loan.

13.2 The pension asset relates to the unutilised balance of the pension surplus. DenPen, a defined benefit plan, became a pensioners' only 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 is accessed by Denel through a contribution holiday over the next two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

	GROUP		COMPANY	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
14 DEFERRED TAX				
Deferred tax assets	15	17	-	2
Deferred tax liabilities	-	(1)	-	(2)
	15	16	-	-
Movement of deferred tax assets and liabilities:				
Balance at 1 April	16	3	-	-
Business acquired	-	17	-	-
Income statement (refer note 7)	(1)	(4)	-	-
	15	16	-	-
Net deferred tax asset comprises:				
Provisions	224	287	211	275
Property, plant and equipment allowance	19	7	17	7
Advance payments received	756	442	701	440
Amounts due to customers for work invoiced, not yet performed	41	30	41	30
Embedded derivative liabilities	-	1	-	1
Other tax deductible differences	240	208	214	138
Limit deferred tax asset to liability	(756)	(652)	(736)	(565)
Assessed loss	3	17	-	-
	527	340	448	326
Net deferred tax liability comprises:				
Capital allowances	(121)	(95)	(121)	(114)
Doubtful debt allowance	-	(4)	-	(4)
Prepayments made	(2)	(3)	(1)	(3)
Amount due from customers for contract work	(344)	(221)	(323)	(205)
Section 24 allowance	(42)	-	-	-
Other taxable differences	(3)	(1)	(3)	-
	(512)	(324)	(448)	(326)

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 968m (2012/13: R1 639m) for the group and R1 358m (2012/13: R1 327m) for the company.

		GROUP		COMPANY	
		2014	2013	2014	2013
		Rm	Rm	Rm	Rm
15	**INVENTORIES**				
	Inventories are valued at the lower of cost or net realisable value and is categorised as follows				
	Consumable inventory	83	59	83	59
	Finished products	348	267	339	258
	Raw materials and bought-out components	212	166	106	106
	Work-in-progress	377	221	359	201
		1 020	713	887	624
	Accumulated impairment	162	200	154	191
	An amount relating to inventories which was recognised as an expense during the year (refer note 3)	1 095	946	988	892
	Net amount of written back of inventories recognised as an expense (refer note 3)	(38)	(56)	(37)	(7)
	Inventory purchased during the financial year	1 402	946	1 209	892
16	**TRADE AND OTHER RECEIVABLES**				
	Financial assets (refer note 32.4)	1 021	1 168	951	1 100
	Trade receivables (refer note 32.1)	953	1 107	886	1 040
	Intergroup trade receivables			9	10
	Interest receivables (refer note 32.1)	-	1	-	1
	Sundry receivables (refer note 32.1)	68	60	56	49
	Non-financial assets	1 909	1 095	1 833	1 021
	Amount due from customers for contract work	1 230	789	1 153	731
	Prepayments and advances made	652	293	653	277
	Straight line receivables	12	4	12	4
	Sundry receivables	15	9	15	9
		2 930	2 263	2 784	2 121
	Accumulated impairment				
	Financial assets	47	63	47	63
	Impairment account reconciliation				
	Balance at 1 April	63	68	63	68
	Impairment raised for the year (refer note 3)	4	23	4	18
	Impairment reversal for the year (refer note 3)	(10)	(14)	(10)	(13)
	Recovered during the year	(2)	(13)	(2)	(14)
	Subsidiaries divisionalised			-	5
	Written off as non-collectible	(8)	(1)	(8)	(1)
		47	63	47	63

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

	GROUP		COMPANY	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
17 REINSURANCE ASSET				
Balance at 1 April	-	21	-	-
Policy cancelled	-	(21)	-	-
	-	-	-	-

Densecure SOC Ltd, a subsidiary and captive insurance company to the group, had a reinsurance asset with Centriq Insurance Company Ltd. 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 2012/13.

18 OTHER FINANCIAL ASSETS AND LIABILITIES

18.1 OTHER FINANCIAL ASSETS

	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
Derivatives	20	7	20	7
Foreign exchange contracts	20	7	20	7
Firm commitments	112	35	112	35
Foreign exchange contracts designate as fair value hedges	58	15	58	15
Foreign exchange options designate as fair value hedges	54	20	54	20
	132	42	132	42

18.2 OTHER FINANCIAL LIABILITIES

	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
Derivatives	92	72	92	72
Foreign exchange contracts	36	46	36	46
Foreign exchange options	56	26	56	26
Embedded derivatives	-	4	-	4
Foreign exchange embedded derivatives	-	4	-	4
Firm commitments	14	2	14	2
Foreign exchange contracts designate as fair value hedges	14	2	14	2
	106	78	106	78

	GROUP		COMPANY	
	2014	2013	**2014**	2013
	Rm	Rm	**Rm**	Rm
19 CASH AND CASH EQUIVALENTS				
19.1 CASH AND CASH EQUIVALENTS COMPRISES				
Cash and short-term deposits (refer note 19.2)	**1 512**	1 257	**1 316**	1 177
Cash held on behalf of associated companies (refer note 19.2 and 19.3)	**1**	40	**1**	40
	1 513	1 297	**1 317**	1 217
19.2 CASH AND SHORT-TERM DEPOSITS				
Cash in bank	**219**	328	**84**	302
Local banks	**153**	238	**18**	212
Foreign banks	**66**	90	**66**	90
Deposits	**1 294**	969	**1 233**	915
Local call deposits	**1 294**	969	**1 233**	915
	1 513	1 297	**1 317**	1 217
Less: Amount managed on behalf of associated companies	**(1)**	(40)	**(1)**	(40)
	1 512	1 257	**1 316**	1 177

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits is 4.7% (2012/13: 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 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
19.3 CASH HELD ON BEHALF OF ASSOCIATED COMPANIES				
Amount managed on behalf of associated companies (refer note 19.1 and 19.2)	**1**	40	**1**	40

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 note 19.1, 19.2, 23, 32.2 and 32.3).

	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
20 NON-CURRENT ASSETS HELD FOR SALE				
Balance as at 1 April	**104**	91	**104**	91
Transfer to/(from) investment properties (refer note 9)	**(20)**	14	**(20)**	13
	84	104	**84**	14

The asset held for sale in respect of investment properties relates to the Philippi facility. The negotiations relating to the selling of the property are at an advanced stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

		GROUP		COMPANY	
		2014	2013	2014	2013
		Rm	Rm	Rm	Rm
21	SHARE CAPITAL AND SHARE PREMIUM				
21.1	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
21.2	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
21.3	SHARE PREMIUM				
	Balance at 1 April	4 951	4 251	4 951	4 251
	Premium on shares issued during the year	-	700	-	700
		4 951	4 951	4 951	4 951

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 (2012/13: 225 056 663). During the year nil (2012/13: 7 000) Class B shares were issued to the shareholder.

The unissued shares are under the control of the 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 2014 Rm	GROUP 2013 Rm
22	NON-CONTROLLING INTEREST		
	Balance at 1 April	8	-
	Acquisition of additional ownership interest in subsidiary	-	9
	Preference dividends payable	(2)	(1)
		6	8

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
23 LOANS AND BORROWINGS				
Interest-bearing loans and borrowings				
Secured loans	3	-	-	-
Unsecured loan from non-controlling interest shareholders (refer note 23.1)	-	6	-	-
Unsecured bonds (refer note 23.2)	1 595	1 398	1 595	1 398
Unsecured mortgage	-	2	-	-
Other	18	-	12	-
Non-current portion of interest-bearing loans and borrowings	1 616	1 406	1 607	1 398
Current portion of interest-bearing loans and borrowings	259	507	259	490
Bank overdraft (refer note 32.3)	-	16	-	-
Commercial paper (refer note 23.3 and 32.3)	250	450	250	450
Cash managed on behalf of associated companies (refer note 19 and 32.3)	1	40	1	40
Current portion of non-current borrowings included in current liabilities	8	1	8	-
Total interest-bearing loans and borrowings	1 875	1 913	1 866	1 888

23.1 UNSECURED LOAN FROM NON-CONTROLLING INTEREST SHAREHOLDERS

The amount reflected in 2012/13 relates to borrowings by LMT from its non-controlling shareholders which was repaid during the year under review.

23.2 UNSECURED BONDS

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. The guarantee expires on 30 September 2017.

The borrowings have been raised through the issuance of three- and five-year bonds totalling R1.6bn (2012/13: R1.4bn). The three-year bond was issued on 28 January 2013 at an interest rate of 5.881% and matures on 28 January 2016. Two five-year bonds were issued on 28 January 2013 and 10 June 2013 at interests rate of 6.86% and 7.92% respectively and matures on 29 September 2017. Of the total borrowings, R1.4bn are backed by a five-year government guarantee. The interest rate is linked to JIBAR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

23 LOANS AND BORROWINGS (continued)

23.3 COMMERCIAL PAPER

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.

Notes were issued on 24 February 2014 to the value of R250m with maturity on 28 August 2014 at an interest rate of 5.925%. Further notes were issued on 3 March 2014 with maturity on 3 September 2014 at an interest rate of 5.925%. The interest rate is linked to JIBAR.

The undrawn borrowing facilities available for future operating activities amount to R440m (2012/13: R350m) and USD50m (2012/13: USDnil). Refer to note 32.4 for fair value.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
23.4 SUMMARY OF MATURITY OF BORROWINGS				
Maturing within 12 months	259	507	259	490
Maturing between 12 and 60 months	1 616	1 406	1 607	1 398
	1 875	1 913	1 866	1 888
	%	%	%	%
23.5 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES				
Local unsecured loans (fixed rate)	6.6	6.4	6.6	6.4
Current bank borrowings (floating rate)	6.4	5.8	6.4	5.8
	Rm	Rm	Rm	Rm
24 ADVANCE PAYMENTS RECEIVED				
Non-current advance payments received	2 066	1 169	2 066	1 169
Current advance payments received	628	410	439	401
	2 694	1 579	2 505	1 570
The carrying amount of the advance payment is expected to be settled as follows:				
Less than one year	190	410	440	401
Between one and two years	434	227	300	227
Between two and five years	672	877	1 115	877
More than five years	1 398	65	650	65
	2 694	1 579	2 505	1 570

During 2012/13 and 2013/14 the group entered into large long-term contracts on which advance payments were received. These advance payments will be settled over a period of up to twelve years and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current (refer note 27.1).

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
25 PROVISIONS				
25.1 NON-CURRENT PROVISIONS				
Contract risks and onerous contracts	10	20	8	15
Product warranty and recall	40	29	40	29
Site restoration	209	216	209	216
	259	265	257	260
25.2 CURRENT PROVISIONS				
Contract risks and onerous contracts	46	64	46	71
Performance guarantees	39	34	39	34
Product warranty and recall	41	48	37	45
Site restoration	13	28	13	28
Countertrade	46	41	46	41
Insurance provision	7	3	-	-
Other	195	305	170	283
	387	523	351	502
Total provisions	646	788	608	762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

25 PROVISIONS (continued)

25.3 RECONCILIATION

GROUP

	Contract risks and onerous contracts Rm	Performance guarantees [1] Rm	Product warranty and recall Rm	Site restoration Rm	Countertrade [2] Rm	Insurance Rm	Other Rm	Total Rm
2014								
Balance at 1 April	84	34	77	244	41	3	305	788
Charged to the income statement	12	5	29	-	9	6	192	253
Realised	(38)	-	(22)	(39)	(2)	(2)	(296)	(399)
Unused amounts reversed	(5)	-	(3)	-	(2)	-	(6)	(16)
Unwinding of discount on provisions	3	-	-	17	-	-	-	20
	56	39	81	222	46	7	195	646
2013								
Balance at 1 April	160	41	91	237	33	5	163	730
Charged to the income statement	9	7	32	3	8	-	310	369
Realised	(67)	-	(15)	(12)	-	(2)	(162)	(258)
Unused amounts reversed	(25)	(14)	(32)	-	-	-	(6)	(77)
Unwinding of discount on provisions	7	-	1	16	-	-	-	24
	84	34	77	244	41	3	305	788

COMPANY

	Contract risks and onerous contracts Rm	Performance guarantees [1] Rm	Product warranty and recall Rm	Site restoration Rm	Countertrade [2] Rm	Insurance Rm	Other Rm	Total Rm
2014								
Balance at 1 April	86	34	74	244	41	-	283	762
Charged to the income statement	5	5	27	-	9	-	167	213
Realised	(35)	-	(20)	(39)	(2)	-	(275)	(371)
Unused amounts reversed	(5)	-	(4)	-	(2)	-	(5)	(16)
Unwinding of discount on provisions	3	-	-	17	-	-	-	20
	54	39	77	222	46	-	170	608
2013								
Balance at 1 April	146	41	88	237	33	-	135	680
Business acquired	-	-	-	-	-	-	6	6
Charged to the income statement	11	7	30	3	-	-	290	341
Realised	(53)	-	(13)	(12)	8	-	(143)	(213)
Unused amounts reversed	(25)	(14)	(32)	-	-	-	(5)	(76)
Unwinding of discount on provisions	7	-	1	16	-	-	-	24
	86	34	74	244	41	-	283	762

1 *Refer note 24.1.*

2 *Refer not 27.5.*

25 PROVISIONS (continued)

Contract risks and onerous contracts

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract.

Performance guarantees

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Provisions relating to insurance contracts

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

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.

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 of a specific contract, 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 R22m (2012/13: R144m) 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 R170m (2012/13: R150m) for the group and R145m (2012/13: R132m) 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 units 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 R3m (2012/13: R7m) for the group and company.

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for the year ended 31 March 2014

	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
26 TRADE AND OTHER PAYABLES				
Financial liabilities (refer note 32.2 and 32.4)	955	837	907	776
Trade payables	665	497	629	457
Intergroup trade payables			32	13
Interest accrued	11	22	11	21
Other accruals	279	318	235	285
Non-financial liabilities	145	109	144	109
Amounts due to customers for work invoiced not yet performed	144	109	144	109
Other non-financial liabilities	1	-	-	-
	1 100	946	1 051	885

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.

27 CONTINGENT LIABILITIES

27.1 GUARANTEES

	GROUP 2014 Rm	GROUP 2013 Rm	COMPANY 2014 Rm	COMPANY 2013 Rm
The following guarantees were issued by the group:				
Advance payment guarantees	2 915	2 162	2 915	2 162
Guarantees to banks for credit facilities of subsidiaries	-	57	-	57
Guarantees to local authorities	8	5	8	5
Participating guarantees	-	1	-	1
Performance guarantees	850	760	850	760
Other guarantees	170	164	170	164
Total of guarantees issued	3 943	3 149	3 943	3 149
Guarantees issued on behalf of associated companies	(190)	(174)	(190)	(174)
Advance payment guarantees	(64)	(56)	(64)	(56)
Guarantees to banks for credit facilities of subsidiaries	-	(55)	-	(55)
Guarantees to local authorities	(2)	(1)	(2)	(1)
Performance guarantees	(59)	(52)	(59)	(52)
Other guarantees	(65)	(10)	(65)	(10)
	3 753	2 975	3 753	2 975
Recognised in the consolidated annual financial statements	(2 733)	(1 613)	(2 544)	(1 604)
Advance payments received (refer note 24)	(2 694)	(1 579)	(2 505)	(1 570)
Provision for performance guarantees (refer note 25)	(39)	(34)	(39)	(34)
	1 020	1 362	1 209	1 371

27 CONTINGENT LIABILITIES (continued)

27.2 LITIGATION

Litigation comprises legal claims lodged and claims that may be lodged against the group. Owing to the sensitivity of the claims and the measures that will be taken to limit the liabilities, specific disclosure of items may negatively influence the outcome and the group's actions.

The aggregate amount of significant claims lodged against the company not specifically provided for is Rnil (2012/13: R8m). 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. There are ongoing arbitrations between the parties and indications are that the matters will be resolved. It is not possible at this stage to estimate the potential damages and legal costs involved as the matters are sub judice.

27.3 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 R1.4bn. This loss has not been raised as a provision following a written commitment received from the shareholder stating its support including financial for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country. During 2012 various onerous terms and conditions to the contract were renegotiated to mitigate risk to the company and shareholder.

27.4 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 R30m (2012/13: R37m) for the group and company.

27.5 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; and
- Exchange of countertrade obligations with companies from buyers' countries that have countertrade obligations in SA.

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations. The group issued guarantees to the value of R53m (2012/13: R43m) to enable the contracting country to raise penalties on non-fulfilment of countertrade obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

27 CONTINGENT LIABILITIES (continued)

27.5 COUNTERTRADE (continued)

The group has entered into local defence contracts which 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 client. The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

The table below summarises the group's countertrade position:

	2014			2013		
	Export contracts Rm	Local defence contracts Rm	Total Rm	Export contracts Rm	Local defence contracts Rm	Total Rm
Countertrade obligation						
Total countertrade obligation	5 675	400	6 075	557	325	882
Obligation discharged	(85)	(372)	(457)	(62)	(303)	(365)
Outstanding obligation	5 590	28	5 618	495	22	517
To be settled by third party	-	(20)	(20)	-	(7)	(7)
Net obligation of the group	5 590	8	5 598	495	15	510
Penalties						
Maximum penalty for non-compliance	548	1	549	42	1	43
Third party obligation	-	(1)	(1)	-	-	-
Net group exposure	548	-	548	42	1	43
Guarantees issued						
Group issued	43	-	43	41	-	41
Third party guarantees	-	1	1	-	-	-
	43	1	44	41	-	41
Provision to settle obligation (refer note 25)	46	-	46	41	-	41

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
28 NOTES TO THE CASH FLOW STATEMENT				
Reconciliation of profit with cash retained from operations				
Net profit before tax	190	82	198	146
Adjusted for:	30	307	82	271
Loss on disposal of property, plant and equipment [1]	1	1	1	-
Depreciation [1]	128	97	84	76
Amortisation of intangible assets [1]	16	16	16	16
Remeasurement of derivatives	6	47	6	49
Remeasurement of embedded derivatives	(4)	(11)	(4)	(10)
Remeasurement of firm commitments	(65)	(11)	(65)	(11)
Finance costs (refer note 6.1)	140	143	150	140
Finance income (refer note 6.2)	(48)	(36)	(45)	(39)
Dividends received			(29)	(104)
Decrease in provisions	(162)	34	(174)	52
Impairment (reversed)/raised on property, plant and equipment [1]	(44)	(2)	22	(2)
Impairment reversed on other intangible assets [1]	-	(5)	-	(5)
Impairment in subsidiaries [1]			-	1
Share of profit of associated companies (refer note 12)	(58)	(72)		
Fair value adjustment of investment properties (refer note 4)	(32)	(33)	(32)	(31)
Pension holiday	153	139	153	139
Operating profit before changes in net current assets	221	389	281	417
Changes in net current assets	(809)	(767)	(751)	(877)
Increase in inventories	(307)	(89)	(263)	(99)
Increase in receivables	(668)	(814)	(665)	(919)
Decrease in reinsurance asset	-	21	-	-
Increase in trade and other payables	167	115	178	141
Cash utilised in operations	(588)	(378)	(470)	(460)

1 *Refer note 3.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
29 CAPITAL COMMITMENTS				
Approved and contracted for:				
Property, plant and equipment	47	65	39	13
Land and buildings	3	1	1	1
Computer equipment	9	-	9	-
Machinery	24	64	18	12
Office furniture	1	-	1	-
Plant	9	-	9	-
Vehicles	1	-	1	-
Approved but not contracted for:				
Property, plant and equipment	-	19	-	19
Land and buildings	-	12	-	12
Computer equipment	-	6	-	6
Plant	-	1	-	1
	47	84	39	32

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.

30 NON-CANCELLABLE LEASES

Operating leases

The group and company have certain property, plant and equipment held under operating leases. Some of the lease agreements provide for minimum annual lease payments which are due as follows:

	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
GROUP						
2014						
Less than one year	55	4	2	1	-	62
Between one and five years	274	2	6	2	1	285
More than five years	121	-	-	-	-	121
	450	6	8	3	1	468
2013						
Less than one year	48	4	2	1	-	55
Between one and five years	189	6	5	3	1	204
More than five years	-	-	-	1	-	1
	237	10	7	5	1	260
COMPANY						
2014						
Less than one year	51	3	2	-	-	56
Between one and five years	253	2	6	-	1	262
More than five years	110	-	-	-	-	110
	414	5	8	-	1	428
2013						
Less than one year	45	3	2	-	-	50
Between one and five years	184	5	5	-	1	195
	229	8	7	-	1	245

Non-cancellable leases of buildings includes the Kempton Park site which Denel sold during 2007 to ACSA's subsidiary, Precinct 2A, on a sale and leaseback basis. The original lease period was five years with an option to extend for a further two periods of five years each, which Denel exercised during 2012. The lease payments are fixed for the ten-year period and quarterly lease payments are based on the purchase value of the property discounted at an interest rate of 9.25%. Should Denel extend the lease beyond the current ten-year period, the lease payments will be based on market related rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

31 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 R0.5m have not been included in the table.

National Government and state controlled units

Denel SOC Ltd is fully controlled by its sole shareholder, the Government represented by 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 NT.

Post-employment benefit plans

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

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the business unit. All individuals who are members of the Denel executive committee 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 unit. There were no material transactions other than the directors' emoluments detailed in the remuneration section of the governance report.

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 sales and purchase of goods and services with the other related parties of the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

31 RELATED PARTIES (continued)

The following transactions were carried out with related parties:

GROUP

	SA National Government Rm	Major national public entities Rm	Between the company and its subsidiaries Rm	Associated companies Rm
2014				
Purchases of goods	-	13		242
Sales of goods	634	588		3
Services rendered	626	2		-
Services received	10	25		-
Lease payments	-	44		-
Lease received	7	-		-
Guarantees issued to related parties	501	-		-
Guarantees issued to third parties on behalf of related parties	-	-		190
Guarantees issued to third parties by related parties	1 850	-		-
Finance income	-	-		4
Dividends received	-	-		19
Outstanding balances payable	4	9		122
Outstanding balances receivable	225	29		5
Advance payments received	1 137	-		-
Allowance of doubtful debts	1	-		-
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	-		-

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for the year ended 31 March 2014

31 RELATED PARTIES (continued)

COMPANY

	SA National Government Rm	Major national public entities Rm	Between the company and its subsidiaries Rm	Associated companies Rm
2014				
Purchases of goods	-	13	43	242
Sales of goods	571	588	2	-
Services rendered	626	2	44	3
Services received	10	25	14	-
Lease payments	-	44	-	-
Lease received	7	-	9	-
Guarantees issued to related parties	501	-	-	-
Guarantees issued to third parties by related parties	1 850	-	-	190
Finance income	-	-	-	4
Finance costs	-	-	11	-
Dividends received	-	-	10	19
Outstanding balances payable	4	9	32	122
Outstanding balances receivable	162	29	9	5
Advance payments made	1 137	-	5	-
Allowance of doubtful debts	1	-	-	-
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	-	-	-

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
31 RELATED PARTIES (continued)				
Compensation paid to key management personnel				
Short-term employee benefits	43	41	36	33
Post-employment benefits	3	3	2	2
Termination benefits paid	7	-	7	-
	53	44	45	35

32 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, which 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 counterparties;
- Approval of new instruments;
- Approval of foreign exchange transaction company policy;
- Approval of the investment policy;
- Approval of corporate treasury policy and procedure manual; and
- 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 function, which undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the A&R committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the group's receivables from customers (loans receivable, trade and sundry receivables) and its centralised treasury activities (derivative financial instruments and cash and cash equivalents).

Receivables from customers

The 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 client:

- The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country;
- The previous business record that the existing client had with business 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 gradings are published on a regular basis. The group uses the international publication, "Institutional Investor", as a basis for its country risk assessments; and
- Whether finance is available to the potential client.

The policy further requires that for specifically identified contracts, the contractual terms must provide for the retention of ownership over goods until full and final payment has been received. Additionally, security for payment must also be contractually stipulated. Security usually takes the form of irrevocable letters of credit, bank guarantees (from first-class international banks in acceptable countries)/bonds, promissory notes and credit insurance. In the case of high risk clients who are unable to provide security over future payments, the group may transact with them only on a pre-payment basis.

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

Financial instruments managed by the group's treasury function

The 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 A&R 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.

32 FINANCIAL RISK MANAGEMENT (continued)

32.1 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:

	2014			2013		
	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm
GROUP						
Trade receivables (refer note 16)	254	699	953	357	750	1 107
Government and related entities	191	163	354	318	174	492
Non-government entities	63	536	599	39	576	615
Sundry receivables (refer note 16)	68	-	68	60	-	60
Government and related entities	31	-	31	34	-	34
Non-government entities	37	-	37	26	-	26
Interest receivables (refer note 16)	-	-	-	1	-	1
Non-government entities	-	-	-	1	-	1
Loans and receivables (refer note 13)	117	-	117	321	-	321
Non-government entities	117	-	117	321	-	321
	439	699	1 138	739	750	1 489
COMPANY						
Trade receivables (refer note 16)	244	642	886	299	741	1 040
Government and related entities	191	163	354	261	173	434
Non-government entities	53	479	532	38	568	606
Sundry receivables (refer note 16)	56	-	56	49	-	49
Government and related entities	27	-	27	34	-	34
Non-government entities	29	-	29	15	-	15
Interest receivables (refer note 16)	-	-	-	1	-	1
Non-government entities	-	-	-	1	-	1
Loans and receivables (refer note13)	117	-	117	321	-	321
Non-government entities	117	-	117	321	-	321
	417	642	1 059	670	741	1 411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

Ageing

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

	2014				2013			
	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm
GROUP								
Trade receivables (refer note 16)	953	47	(47)	953	1 107	63	(63)	1 107
Not past due	725	-	-	725	831	-	-	831
Past due								
Less than 30 days	114	-	-	114	145	-	-	145
30 to 60 days	22	-	-	22	26	-	-	26
61 to 90 days	16	-	-	16	9	-	-	9
More than 90 days	76	47	(47)	76	96	63	(63)	96
Sundry receivables (refer note 16)	68	-	-	68	60	-	-	60
Not past due, not impaired	64	-	-	64	45	-	-	45
Past due								
Less than 30 days	-	-	-	-	11	-	-	11
30 to 60 days	4	-	-	4	-	-	-	-
61 to 90 days	-	-	-	-	4	-	-	4
Interest receivables (refer note 16)	-	-	-	-	1	-	-	1
Not past due, not impaired	-	-	-	-	1	-	-	1
Loans and receivables (refer note13)	117	-	-	117	321	-	-	321
Not past due, not impaired								
Current portion	117	-	-	117	182	-	-	182
Non-current portion	-	-	-	-	139	-	-	139
	1 138	47	(47)	1 138	1 489	63	(63)	1 489

32 FINANCIAL RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

Ageing (continued)

	2014				2013			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY								
Trade receivables (refer note 16)	886	47	(47)	886	1 040	63	(63)	1 040
Not past due	688	-	-	688	791			791
Past due								
Less than 30 days	87	-	-	87	121	-	-	121
30 to 60 days	22	-	-	22	22	-	-	22
61 to 90 days	16	-	-	16	9	-	-	9
More than 90 days	73	47	(47)	73	97	63	(63)	97
Sundry receivables (refer note 16)	56	-	-	56	49	-	-	49
Not past due, not impaired	56	-	-	56	37	-	-	37
Past due								
Less than 30 days	-	-	-	-	8	-	-	8
30 to 60 days	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	4	-	-	4
Interest receivables (refer note 16)	-	-	-	-	1	-	-	1
Not past due, not impaired	-	-	-	-	1	-	-	1
Loans and receivables (refer note13)	117	-	-	117	321	-	-	321
Not past due, not impaired								
Current portion	117			117	182			182
Non-current portion	-			-	139			139
	1 059	47	(47)	1 059	1 411	63	(63)	1 411

Security held over non-derivative financial assets

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
Irrevocable Letters of Credit confirmed by foreign banks	12	155	12	155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32.2 LIQUIDITY RISK

A centralised treasury function manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash to fund the group's operations. Updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis. Information received from divisions and subsidiaries is used to develop/amend strategies to maintain adequate cash for the business. 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, deposits and call deposits) (refer note 19).

Undrawn credit facilities

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
SA Rand (ZAR)	440	350	440	350
US Dollar (USD)	50	-	50	-

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.

32 FINANCIAL RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

		CONTRACTUAL UNDISCOUNTED CASH FLOWS			
	Carrying amount Rm	Total cash flows Rm	Less than 3 months Rm	Between 3 and 12 months Rm	Between 1 and 5 years Rm
GROUP					
2014					
Interest-bearing loans and borrowings (refer note 23)	1 874	2 150	18	357	1 775
Loans from associated companies (refer note 23)	1	1	1	-	-
Trade and other payables (refer note 26)	955	955	809	142	4
Derivative financial liabilities (refer note 18.2)	92	92	57	35	-
	2 922	3 190	885	534	1 779
2013					
Interest-bearing loans and borrowings (refer note 23)	1 867	2 199	468	84	1 647
Unsecured loan from non-controlling interest shareholders (refer note 23)	6	-	-	-	-
Loans from associated companies (refer note 23)	40	40	40	-	-
Trade and other payables (refer note 26)	837	846	666	175	5
Derivative financial liabilities (refer note 18.2)	72	72	8	58	6
	2 822	3 157	1 182	317	1 658
COMPANY					
2014					
Interest-bearing loans and borrowings (refer note 23)	1 865	2 137	17	356	1 764
Loans from associated companies (refer note 23)	1	1	1	-	-
Trade and other payables (refer note 26)	907	907	805	99	3
Derivative financial liabilities (refer note 18.2)	92	92	57	35	-
	2 865	3 137	880	490	1 767
2013					
Interest-bearing loans and borrowings (refer note 23)	1 848	2 185	468	83	1 634
Loans from associated companies (refer note 23)	40	40	40	-	-
Trade and other payables (refer note 26)	776	783	669	109	5
Derivative financial liabilities (refer note 18.2)	72	72	8	58	6
	2 736	3 080	1 185	250	1 645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK

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

Business units

The divisions and subsidiaries 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 executive committee on a weekly and monthly basis respectively.

A significant element of the market risk encountered arises from financial instruments that are managed centrally within the treasury function of the group. These include more complex instruments used for hedging purposes.

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to upward interest rate movements on loans and 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 the treasury department. Treasury department 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.

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
Fixed rate instruments				
Cash and short-term deposits	67	-	6	-
Commercial paper	250	450	250	450
Loans and borrowings	604	584	604	584
Variable rate instruments				
Bank overdraft	-	16	-	-
Cash and short-term deposits	1 445	1 257	1 310	1 177
Cash managed on behalf of associated companies	1	40	1	40
Loans and borrowings	1 021	823	1 011	814
Loans and other receivables	117	321	117	321

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 of 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.

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for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Cash and cash equivalents

	GROUP		COMPANY	
	2014	2013	2014	2013
	Rm	Rm	Rm	Rm
Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed on page 181.	8	8	7	8

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 divisions/ subsidiaries. Currency exposures are hedged based on an 18-month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying foreign exchange policy. The hedging instrument is entered into once the exposure is firm and ascertainable, i.e. there is an underlying contract in place. Currency exposures are reported to the GFD on a weekly basis and to the executive committee on a monthly basis.

Bank accounts of foreign offices are not hedged. Proceeds received from export contracts are used to pay foreign suppliers on the same contract, and utilised as natural hedges by keeping funds in the CFC accounts.

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Currency risk (continued)

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

	2014		2013	
	USD	EUR	USD	EUR
	m	m	m	m
GROUP				
Assets	68	59	74	44
Trade receivables	28	21	39	44
Controlled foreign currency accounts (CFC)	3	-	1	-
Embedded derivatives (export revenue)	-	-	2	-
Firm commitment (export revenue)	37	38	32	-
Liabilities	(20)	(6)	(6)	(9)
Trade payables	(3)	(1)	(6)	(9)
Firm commitment (import)	(17)	(5)	-	-
Gross balance sheet exposure	48	53	68	35
Forecast transactions (revenue)	37	38	34	5
Forecast transactions (purchases)	(12)	(4)	-	(6)
Gross balance sheet exposure	73	87	102	34
Forward exchange contracts				
Export revenue	(37)	(38)	(34)	(5)
Imports	17	5	-	6
Net exposure	53	54	68	35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Currency risk (continued)

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

	2014		2013	
	USD	EUR	USD	EUR
	m	m	m	m
COMPANY				
Assets	68	59	111	37
Trade receivables	28	21	38	33
Controlled foreign currency accounts (CFC)	3	-	1	-
Embedded derivatives (export revenue)	-	-	2	-
Firm commitment (export revenue)	37	38	70	4
Liabilities	(20)	(6)	(6)	(9)
Trade payables	(3)	(1)	(6)	(9)
Firm commitment (import)	(17)	(5)	-	-
Gross balance sheet exposure	48	53	105	28
Forecast transactions (revenue)	37	38	34	5
Forecast transactions (purchases)	(12)	(4)	-	(6)
Gross balance sheet exposure	73	87	139	27
Forward exchange contracts				
Export revenue	(37)	(38)	(34)	(5)
Import	17	5	-	6
Net exposure	53	54	105	28

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Currency risk (continued)

Strengthening of the ZAR

	2014		2013	
	USD	EUR	USD	EUR
	Rm	Rm	Rm	Rm
Group	6	5	17	21
Company	6	5	17	14

A 5% strengthening of the ZAR against the above currencies at 31 March would have increased/(decreased) profit or loss by the abovementioned amounts.

A 5% weakening of the ZAR 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.

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 18. The following foreign exchange contracts existed at 31 March:

	2014			2013		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	m	Rm	Rm	m	Rm	Rm
Revenue contracts						
Euro (EUR)	38	550	563	5	63	95
Sterling (GBP)	4	52	56	-	-	-
Swiss Franc (CHF)	2	17	18	1	5	11
US Dollar (USD)	37	394	398	34	324	434
		1 013	1 035		392	540
Purchase contracts						
Euro (EUR)	5	66	66	6	72	75
Sterling (GBP)	-	6	6	-	2	2
Swiss Franc (CHF)	2	10	10	-	2	2
US Dollar (USD)	17	166	172	-	3	5
		248	254		79	84

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for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Foreign currency derivatives (continued)

Maturity table: Foreign currency notional amount

	2014				2013			
	1 year	2 years	3 - 5 years	Total	1 year	2 years	3 - 5 years	Total
	m	m	m	m	m	m	m	m
Foreign exchange contracts								
Revenue contracts								
Euro (EUR)	32	6	-	38	5	-	-	5
Sterling (GBP)	4	-	-	4	-	-	-	-
Swiss Franc (CHF)	2	-	-	2	1	-	-	1
US Dollar (USD)	14	23	-	37	25	10	-	35
Purchase contracts								
Euro (EUR)	4	1	-	5	6	-	-	6
Swiss Franc (CHF)	1	-	-	1	-	-	-	-
US Dollar (USD)	15	2	-	17	-	-	-	-
Foreign exchange options								
Revenue contracts								
Euro (EUR)	-	-	-	-	4	-	-	4
US Dollar (USD)	69	-	-	69	27	12	-	39

Foreign exchange embedded derivatives and firm commitment

A contract (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 EURO 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.

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Foreign currencies

	2014			2013		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	m	Rm	Rm	m	Rm	Rm
Export transactions						
Embedded derivatives						
US Dollar (USD)	-	-	-	2	26	23
		-	-		26	23
Firm commitment relating to foreign exchange contracts						
Euro (EUR)	21	300	318	-	-	-
Sterling (GBP)	4	61	65	-	-	-
Swiss Franc (CHF)	-	3	3	-	3	3
US Dollar (USD)	42	455	456	30	281	290
		819	842		284	293
Firm commitment relating to foreign exchange options						
Euro (EUR)	-	1	1	4	12	48
US Dollar (USD)	69	680	626	39	355	329
		681	627		367	377
Import transactions						
Firm commitment relating to foreign exchange contracts						
Euro (EUR)	4	71	68	-	-	-
Sterling (GBP)	-	1	1	-	1	1
Swiss Franc (CHF)	1	16	16	-	-	-
US Dollar (USD)	-	-	-	-	1	1
		88	85		2	2

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for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.3 MARKET RISK (continued)

Foreign currency derivatives (continued)

Maturity table: Foreign currency notional amount

	2014				2013			
	1 year	2 years	3 - 5 years	Total	1 year	2 years	3 - 5 years	Total
	m	m	m	m	m	m	m	m
Export transactions								
Embedded derivatives								
US Dollar (USD)	-	-	-	-	2	-	-	2
Firm commitment relating to foreign exchange contracts								
Euro (EUR)	26	-	-	26	-	-	-	-
Sterling (GBP)	4	-	-	4	-	-	-	-
Swiss Franc (CHF)	1	-	-	1	-	-	-	-
US Dollar (USD)	42	1	-	43	31	-	-	31
Firm commitment relating to foreign exchange options								
Euro (EUR)	-	-	-	-	4	-	-	4
US Dollar (USD)	69	-	-	69	27	12	-	39

Import transactions

Firm commitment relating to foreign exchange contracts

The maturity of all import transaction firm commitments is within one year.

Commodity risk

As at 31 March 2014 the group had no commodity swap contracts (2012/13: Rnil).

32 FINANCIAL RISK MANAGEMENT (continued)

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The categorisation of each class of financial asset and liability, including their fair values, is included below:

	Loans and receivables	Liabilities at amortised cost	At fair value through profit or loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
GROUP					
2014					
Financial assets					
Cash and cash equivalents (refer note 19)	1 512			1 512	1 512
Cash held on behalf of associated companies (refer note 19.3)	1			1	1
Loans and receivables (refer note 13)	117			117	117
Other financial assets (refer note 18.1)			132	132	132
Trade and other receivables (refer note 16)	1 021			1 021	1 021
Financial liabilities					
Associated companies: Loans payable (refer note 23)		(1)		(1)	(1)
Interest-bearing borrowings (refer note 23)		(1 874)		(1 874)	(1 844)
Other financial liabilities (refer note 18.2)			(106)	(106)	(106)
Preference dividends payable		(3)	-	(3)	-
Trade and other payables (refer note 26)		(955)		(955)	(955)
	2 651	(2 833)	26	(156)	(126)
2013					
Financial assets					
Associated companies: Loans receivable (refer note 13)	62			62	62
Cash and cash equivalents (refer note 19)	1 257			1 257	1 257
Cash held on behalf of associated companies (refer note 19.3)	40			40	40
Loans and receivables (refer note 13)	259			259	259
Other financial assets (refer note 18.1)			42	42	42
Trade and other receivables (refer note 16)	1 168			1 168	1 168
Financial liabilities					
Associated companies: Loans payable (refer note 23)		(40)		(40)	(40)
Interest-bearing borrowings (refer note 23)		(1 867)		(1 867)	(1 867)
Non-interest-bearing borrowings (refer note 23)		(6)		(6)	(6)
Other financial liabilities (refer note 18.2)			(78)	(78)	(78)
Preference dividends payable		(1)	-	(1)	-
Trade and other payables (refer note 26)		(837)		(837)	(837)
	2 786	(2 751)	(36)	(1)	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

32 FINANCIAL RISK MANAGEMENT (continued)

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The categorisation of each class of financial asset and liability, including their fair values, is included below:

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit or loss Rm	Carrying amount Rm	Fair value Rm
COMPANY					
2014					
Financial assets					
Cash and cash equivalents (refer note 19)	1 316			1 316	1 316
Cash held on behalf of associated companies (refer note 19.3)	1			1	1
Loans and receivables (refer note 13)	117			117	117
Other financial assets (refer note 18.1)			132	132	132
Subsidiaries: Receivables (refer note 11)	336			336	336
Trade and other receivables (refer note 16)	951			951	951
Financial liabilities					
Associated companies: Loans payable (refer note 23)		(1)		(1)	(1)
Interest-bearing borrowings (refer note 23)		(1 865)		(1 865)	(1 835)
Other financial liabilities (refer note 18.2)			(106)	(106)	(106)
Trade and other payables (refer note 26)		(907)		(907)	(907)
Subsidiaries: Borrowings (refer note 11)		(322)		(322)	(322)
	2 721	(3 095)	26	(348)	(318)
2013					
Financial assets					
Associated companies: Loans receivable (refer note 13)	62			62	62
Cash and cash equivalents (refer note 19)	1 177			1 177	1 177
Cash held on behalf of associated companies (refer note 19.3)	40			40	40
Loans and receivables (refer note 13)	259			259	259
Other financial assets (refer note 18.1)			42	42	42
Subsidiaries: Receivables (refer note 11)	336			336	336
Trade and other receivables (refer note 16)	1 100			1 100	1 100
Financial liabilities					
Associated companies: Loans payable (refer note 23)		(40)		(40)	(40)
Interest-bearing borrowings (refer note 23)		(1 848)		(1 848)	(1 848)
Other financial liabilities (refer note 18.2)			(78)	(78)	(78)
Subsidiaries: Borrowings (refer note 11)		(452)		(452)	(452)
Trade and other payables (refer note 26)		(776)		(776)	(776)
	2 974	(3 116)	(36)	(178)	(178)

32 FINANCIAL RISK MANAGEMENT (continued)

32.4 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 inputs which have a significant effect on the recorded fair value that are observable, either directly or indirectly.
Level 3: Techniques which use inputs that 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 18 and fall within level 2 of the hierarchy. During the year there were no transfers between any of the levels of fair value measurements.

33 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.

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for the year ended 31 March 2014

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The categorisation of each class of financial asset and liability, including their fair values, is included below:

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
GROUP						
2014						
Assets measured at fair value						
Other financial assets	132	132	-	132	-	132
Assets not measured at fair value						
Cash and cash equivalents	1 512	1 512	-	1 512	-	1 512
Cash held on behalf of associated companies	1	1	-	1	-	1
Loans and receivables	117	117	-	117	-	117
Trade and other receivables	1 021	1 021	-	1 021	-	1 021
	2 783	2 783	-	2 783	-	2 783
Liabilities measured at fair value						
Other financial liabilities	(106)	(106)	-	(106)	-	(106)
Liabilities not measured at fair value						
Loans and borrowings	(1 875)	(1 844)	-	(1 844)	-	(1 844)
Preference dividends payable	(3)	(3)	-	(3)	-	(3)
Trade and other payables	(955)	(955)	-	(955)	-	(955)
	(2 939)	(2 909)	-	(2 909)	-	(2 909)
Net value	(156)	(126)	-	(126)	-	(126)

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
GROUP						
2013						
Assets measured at fair value						
Other financial assets	42	42	-	42	-	42
Assets not measured at fair value						
Associated companies: Loans receivable	62	62		62		62
Cash and cash equivalents	1 257	1 257	-	1 257	-	1 257
Cash held on behalf of associated companies	40	40	-	40	-	40
Loans and receivables	259	259	-	259	-	259
Trade and other receivables	1 168	1 168	-	1 168	-	1 168
	2 828	2 828	-	2 828	-	2 828
Liabilities measured at fair value						
Other financial liabilities	(78)	(78)	-	(78)	-	(78)
Liabilities not measured at fair value						
Associated companies: Loans	(40)	(40)	-	(40)	-	(40)
Interest-bearing borrowings	(1 867)	(1 867)	-	(1 867)	-	(1 867)
Non-interest-bearing borrowings	(6)	(6)	-	(6)	-	(6)
Preference dividends payable	(1)	(1)	-	(1)	-	(1)
Trade and other payables	(837)	(837)	-	(837)	-	(837)
	(2 829)	(2 829)	-	(2 829)	-	(2 829)
Net value	(1)	(1)	-	(1)	-	(1)

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for the year ended 31 March 2014

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
COMPANY						
2014						
Assets measured at fair value						
Other financial assets	132	132	-	132	-	132
Assets not measured at fair value						
Cash and cash equivalents	1 316	1 316	-	1 316	-	1 316
Cash held on behalf of associated companies	1	1	-	1	-	1
Loans and receivables	117	117	-	117	-	117
Subsidiaries: Receivables	336	336	-	336	-	336
Trade and other receivables	951	951	-	951	-	951
	2 853	2 853	-	2 853	-	2 853
Liabilities measured at fair value						
Other financial liabilities	(106)	(106)	-	(106)	-	(106)
Liabilities not measured at fair value						
Associated companies: Loans	(1)	(1)	-	(1)	-	(1)
Loans and borrowings	(1 865)	(1 835)	-	(1 835)	-	(1 835)
Subsidiaries: Borrowings	(322)	(322)	-	(322)	-	(322)
Trade and other payables	(907)	(907)	-	(907)	-	(907)
	(3 201)	(3 171)	-	(3 171)	-	(3 171)
Net value	(348)	(318)	-	(318)	-	(318)

32.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
COMPANY						
2013						
Assets measured at fair value						
Other financial assets	42	42	-	42	-	42
Assets not measured at fair value						
Associated companies: Loans receivable	62	62		62		62
Cash and cash equivalents	1 177	1 177	-	1 177	-	1 177
Cash held on behalf of associated companies	40	40	-	40	-	40
Loans and receivables	259	259	-	259	-	259
Subsidiaries: Receivables	336	336	-	336	-	336
Trade and other receivables	1 100	1 100	-	1 100	-	1 100
	3 016	3 016	-	3 016	-	3 016
Liabilities measured at fair value						
Other financial liabilities	(78)	(78)	-	(78)	-	(78)
Liabilities not measured at fair value						
Associated companies: Loans	(40)	(40)	-	(40)	-	(40)
Interest-bearing borrowings	(1 848)	(1 848)	-	(1 848)	-	(1 848)
Subsidiaries: Borrowings	(452)	(452)	-	(452)	-	(452)
Trade and other payables	(776)	(776)	-	(776)	-	(776)
	(3 194)	(3 194)	-	(3 194)	-	(3 194)
Net value	(178)	(178)	-	(178)	-	(178)

For non-financial assets refer to the accounting policy note 1.3.7 for the detail of the valuation technique.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

The capital resources of the group have 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 clients in business transactions that require high investment in working capital over 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%.

34 POST-RETIREMENT OBLIGATIONS

The group offers pension and post-retirement benefits through a defined contribution plan and a defined benefit plan.

34.1 DENEL MEDICAL BENEFIT TRUST

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made by Denel into a separate trustee administrated fund. Denel does not make annual contributions as the trust is fully funded. However, R3.2m was contributed during the year under review to reimburse the trust for the impact of early retirements.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2014 indicated the trust is over-funded. 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. The DMBT's expected long-term investment return was based on the yields of the R186 South African Government bond plus a risk premium of 1.25% per annum.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise and is exploring the possibility of limiting its exposure through a voluntary settlement process. For further detail refer to the directors' report on page 105 to 107.

34 POST-RETIREMENT OBLIGATIONS (continued)

34.1 DENEL MEDICAL BENEFIT TRUST (continued)

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

	2014 Rm	2013 Rm
Change in defined benefit funded obligations		
Present value of funded obligations at 1 April	759	755
Service cost benefits earned during the year	7	8
Interest cost on projected benefit obligation	51	63
Actuarial (gains)/losses	(140)	92
Benefits paid	(29)	(31)
Liability buy-out	(39)	(128)
Present value of funded obligations at 31 March	609	759
Change in plan assets		
Fair value of plan assets at 1 April	1 168	1 057
Expected return on plan assets	83	89
Actuarial losses	136	178
Employer and member contributions	3	1
Benefits paid	(29)	(31)
Liability buy-out	(34)	(126)
Fair value of plan assets at 31 March	1 327	1 168
Fund excess	718	409
Reserves not yet recognised	(718)	(409)
Unrecognised actuarial gains	-	-
Net benefit expenses		
Service cost	7	8
Interest cost	51	63
Expected return on plan assets	(83)	(89)
Net actuarial loss recognised during the year	(4)	92
(Expense)/Income	(29)	74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

34 POST-RETIREMENT OBLIGATIONS (continued)

34.1 DENEL MEDICAL BENEFIT TRUST (continued)

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

	2014 %	2013 %
The principal actuarial assumptions used for accounting purposes were:		
Expected return on plan assets	10.3	10.1
Expected medical inflation	8.3	8.1
	Number	**Number**
The beneficiary members from the funds are as follows:		
Active members	222	365
Retired members	1 208	1 141

	2014		2013	
	Increase %	Decrease %	Increase %	Decrease %
A 1% change in assumed healthcare cost trend rates would have the following effects on defined benefit obligation	11	9	12	11

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm
Amounts for the current and previous five periods are as follows:						
Defined benefit obligation	(609)	(759)	(755)	(674)	(681)	(1 323)
Plan assets	1 327	1 168	1 057	1 151	1 248	1 768
Surplus	718	409	302	477	567	445
Experience adjustments on plan liabilities	(35)	(25)	(25)	(4)	(33)	10

34 POST-RETIREMENT OBLIGATIONS (continued)

34.2 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.

35 SEGMENT REPORTING

Segment information is presented in respect of the group's operating segments. These operating segments are based on the group's management and reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Unallocated items are shown as reconciling items between the segments and the consolidated information.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Transfer pricing between operating segments is based on best practice and fair distribution of profits, 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 (RF);
- Munitions: PMP; and
- Non-core: Non-core activities mainly consist of corporate office, treasury functions, as well as property management 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 aggregated within an operating segment that has products and services closely related to that of the specific business unit.

More detail on the business units is stated in the performance review section on pages 34 to 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

35 SEGMENT REPORTING (continued)

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Systems Rm	Munitions Rm	Non-core Rm	Consolidation entries Rm	Total Rm
2014								
Segment revenue	438	1 467	1 000	1 188	515	293	(313)	4 588
Revenue from external customers	429	1 416	983	1 153	490	117		4 588
Intergroup revenue	9	51	17	35	25	176	(313)	-
Segment result	(44)	158	66	46	6	30	(38)	224
Net finance income/(costs)	11	2	(13)	20	(1)	(111)		(92)
Share of profit of associated companies							58	58
Income tax expense	-	-	-	(1)	-	5		4
Profit for the year	(33)	160	53	65	6	(76)	20	194
Segment assets	780	1 676	759	2 677	661	6 109	(4 588)	8 074
Deferred tax assets								15
Total assets								8 089
Segment liabilities	451	1 303	536	2 420	144	3 768	(2 197)	6 425
Deferred tax liabilities								-
Total liabilities								6 425
Cash flows from								
Operating activities	(68)	(236)	55	721	(56)	(139)	197	474
Investing activities	(62)	(85)	(23)	(31)	(16)	(210)	221	(206)
Financing activities	129	323	(32)	(555)	72	427	(416)	(52)
Capital expenditure	62	56	24	30	16	29	-	217
Impairment losses (reversed)/raised	(67)	10	(19)	-	(12)	-	-	(88)
Depreciation/amortisation in respect of segment assets	42	35	16	17	12	22	-	144
Revenue from SA National Government	63	50	776	237	131	10	-	1 267
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	32	-	32
Loss on disposal of property, plant and equipment	-	-	-	1	-	-	-	1

35 SEGMENT REPORTING (continued)

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Systems Rm	Munitions Rm	Non-core Rm	Consolidation entries Rm	Total Rm
2013								
Segment revenue	262	1 084	1 048	988	530	291	(285)	3 918
Revenue from 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)/income	(5)	14	(7)	(10)	2	(101)	-	(107)
Share of profit of associated companies							72	72
Income tax expense	-	-	(7)	(3)	-	(1)		(11)
Profit for the year	(51)	38	25	44	2	39	(26)	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 (reversed)/raised	(49)	(3)	8	14	(11)	(41)	27	(55)
Depreciation/amortisation in respect of 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	-	-	-	-	-	33	-	33
Loss on disposal of property, plant and equipment	1	-	-	-	-	-	-	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2014

36 SUBSIDIARIES AND ASSOCIATED COMPANIES

The following unlisted companies are subsidiaries or associated companies of Denel SOC Ltd and its subsidiaries:

	2014				2013			
	Share capital issued Rm	Share investment by Denel SOC Ltd Rm	Amounts owing to/(by) Denel SOC Ltd Rm	Effective percentage shareholding %	Share capital issued Rm	Share investment by Denel SOC Ltd Rm	Amounts owing to/(by) Denel SOC Ltd Rm	Effective percentage shareholding %
SUBSIDIARIES								
Denel Aerostructures SOC Ltd	1 689	1 689	14	100.0	1 689	1 689	(116)	100.0
Densecure SOC Ltd	8	8	-	100.0	8	8	-	100.0
LMT Holdings SOC Ltd (RF) [1]	28	13	-	51.0	28	13	-	51.0
Total investment		1 710	14			1 710	(116)	
Aggregated amounts less than R0.5m [2]		-	-			-	-	
Less: Accumulated impairment of investment		(1 055)	(336)			(1 055)	(336)	
Net investment of Denel SOC Ltd		655	(322)			655	(452)	
SHAREHOLDING BY SUBSIDIARY [3]								
LMT Products SOC Ltd	-	-	-	45.9	-	-	-	45.9
LMT Engineering SOC Ltd	1	4	-	51.0	1	4	-	51.0
LMT Properties SOC Ltd	-	-	-	51.0	-	-	-	38.8
		4	-			4	-	
ASSOCIATED COMPANIES								
Turbomeca Africa (Pty) Ltd		49		49.0		49	1	49.0
Cassidian Optronics (Pty) Ltd		57	(1)	30.0		57	1	30.0
Rheinmetall Denel Munition (Pty) Ltd		371		49.0		371	22	49.0
Tawazun Dynamics LLC		23		49.0				
Net investment of Denel SOC Ltd		500	(1)			477	24	

	2014 Rm	2013 Rm
Aggregated loss of subsidiaries	23	48

The country of incorporation of subsidiaries and that of other associated companies are not different from Denel, except for Tawazun Dynamics LLC which is a UAE based company.

Non-controlling interest voting rights are not different from % shareholding.

All associated companies are strategic to the business activities of Denel.

1 *This includes R13m preference shares*
2 *Amounts smaller than R0.5m due to rounding are not reflected against the units but in aggregate on this page*
3 *Shares are not held by the group but effective management control is exercised in these units*

INFORMATION

PART EIGHT

GRI CONTENT INDEX

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

ASPECT	NO.	GRI G3 INDICATOR	RATING 2014	2013	2012	INTEGRATED REPORT REFERENCE	PAGE
SUSTAINABILITY PROFILE							
Strategy and analysis	1.1	Statement from the most senior decision-makers of the organisation	√	√	√	Group chief executive officer's report	18-21
	1.2	Description of key impacts, risks and opportunities	√	√	√	Risk governance Performance review	65-67 24-30
Organisational profile	2.1	Name of organisation	√	√	√	About this report (inside cover)	
	2.2	Primary brands, products, and/or services	√	√	√	Group overview	6-9
	2.3	Operational structure of the organisation	√	√	√	Organisational structure	10
	2.4	Location of organisation's headquarters	√	√	√	Corporate contact details	200
	2.5	Number of countries where the organisation operates	∆	∆	∆	Organisational structure Note 36 of the consolidated annual financial statements	10 190
	2.6	Nature of ownership and legal form	√	√	√	Organisational structure	10
	2.7	Markets served	∆	∆	∆	Group overview Performance review Stakeholder engagement	6-9 31-43 70-73
	2.8	Scale of reporting organisation	√	√	√	Organisational structure Note 36 of the consolidated annual financial statements	10 190
	2.9	Significant changes during the reporting period, regarding size, structure and ownership	√	√	√	Organisational structure Note 36 of the consolidated annual financial statements	10 190
	2.10	Awards received in the reporting period	√	√	√	Performance review	24-30
Report profile	3.1	Reporting period for information provided	√	√	√	About this report (inside cover) Statements of responsibility Independent auditors' report	 104 102-103
	3.2	Date of most recent previous report (if any)	√	√	√	About this report (inside cover) Statements of responsibility Independent auditors' report	 104 102-103
	3.3	Reporting cycle	√	√	√	About this report (inside cover) Directors' report Independent auditors' report	 105 102-103
	3.4	Contact point for questions regarding the report or its contents	√	√	√	Corporate contact details	200
Report scope and boundary	3.5	Process for defining report content	√	√	√	About this report (inside cover)	
	3.6	Boundary of the report	√	√	√	About this report (inside cover)	
	3.7	Limitations on the scope or boundary of the report	√	√	√	About this report (inside cover)	
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	√	About this report (inside cover)	
	3.9	Data measurement techniques and the basis of calculations	√	√	√	About this report (inside cover)	
	3.10	Explanation of the effect of any restatements of information provided in earlier reports	n/a	n/a	n/a		
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods	n/a	n/a	n/a		

ASPECT	NO.	GRI G3 INDICATOR	RATING 2014	2013	2012	INTEGRATED REPORT REFERENCE	PAGE
GRI content index	3.12	Table identifying the location of the standard disclosures in the report	√	√	√	GRI content index	194-197
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	Δ	Δ	Δ	About this report (inside cover)	
Governance, commitments and engagement	4.1	Governance structure of the organisation	√	√	√	How we are governed	54-61
	4.2	Whether the chairman of the highest governance body is also an executive officer	√	√	√	How we are governed	54-61
	4.3	The number of members of the highest governance body who are independent and/or non-executive members	√	√	√	Denel board of directors	46-49
	4.4	Shareholder and employee recommendations or direction to the highest governance body	√	√	√	Stakeholder engagement	70-73
	4.5	Linkage between compensation for members of the board, senior managers, executives and the organisation's triple-bottom-line performance	√	√	√	Remuneration report	62-64
	4.6	Processes and highest governance body to ensure conflicts of interest are avoided	√	√	√	How we are governed	54-61
	4.7	Process for determining the qualifications and expertise of the members of the board	√	√	√	How we are governed	54-61
	4.8	Statements of mission or values, codes of conduct and principles	√	√	√	Vision and strategic drivers	8
	4.9	Procedures of the board for overseeing the organisation's identification and management of economic, environmental, and social performance	√	√	√	How we are governed About this report (inside cover)	54-61
	4.10	Processes for evaluating the board's own performance	√	√	√	How we are governed	54-61
Commitments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	√	√	√	Risk governance	65-69
	4.12	Externally developed economic, environmental and social charters, and principles to which the organisation subscribes or endorses	√	√	√	Risk governance Supply chain management Stakeholder engagement Environmental responsibility	65-69 86-87 70-73 92-97
	4.13	Memberships in associations and/ or national/international advocacy organisations	√	√	√	Environmental responsibility Occupational health and safety Risk governance	92-97 88-89 65-69
Stakeholder engagement	4.14	Lists of stakeholder groups engaged by the organisation	√	√	√	Stakeholder engagement	70-73
	4.15	Basis for identification and selection of stakeholders with whom to engage	√	√	√	Stakeholder engagement	70-73
	4.16	Approaches to stakeholder engagement	√	√	√	Stakeholder engagement	70-73
	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	√	√	Stakeholder engagement	70-73
ECONOMIC INDICATORS							
Economic performance	EC1	Direct economic value generated and distributed	√	√	√	Financial performance	24-30
	EC3	Coverage of the organisation's defined benefit plan obligations	√	√	√	Note 34 of the consolidated annual financial statements	186
	EC4	Significant financial assistance received from the SA Government	√	√	√	Directors' report	105

ASPECT	NO.	GRI G3 INDICATOR	RATING 2014	2013	2012	INTEGRATED REPORT REFERENCE	PAGE
Market presence	EC6	Policy, practices and proportion of spending on locally-based suppliers	√	√	√	Supply chain management	86-87
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	√	√	√	People management	76-81
Indirect economic impact	EC8	Development and impact of infrastructure investments and services for public benefit	√	√	√	Contribution to our community	82-84
	EC9	Significant indirect economic impacts	√	√	√	Contribution to our community	82-84
SOCIAL INDICATORS							
Employment	LA1	Total workforce by employment type, employment contract and region	Δ	Δ	Δ	People management	76-81
	LA2	Total number and rate of employee turnover by age group, gender and region	Δ	Δ	Δ	People management	76-81
	LA3	Benefits provided to full-time employees who are not provided to part-time or temporary employees	√	√	√	People management	76-81
Labour/ management relations	LA4	Percentage of employees covered by collective bargaining agreements	√	√	√	People management	76-81
	LA5	Minimum notice periods regarding operational changes	√	√	√	People management	76-81
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	√	√	√	Occupational health and safety	88-89
	LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	√	√	√	People management Occupational health and safety	76-81 88-89
Training and education	LA10	Total training spend by employee category	√	√	√	People management	76-81
	LA11	Programmes for skills management and lifelong learning	√	√	√	People management	76-81
	LA12	Percentage of employees receiving regular performance and career development reviews	√	√	√	People management	76-81
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	People management	76-81
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	√	√	√	Stakeholder engagement Contribution to our community	70-73 82-84

ASPECT	NO.	GRI G3 INDICATOR	RATING 2014	2013	2012	INTEGRATED REPORT REFERENCE	PAGE
Corruption	SO2	Percentage and total number of business units analysed for risks related to corruption	∆	∆	∆	Risk governance	65-69
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	√	√	√	Risk governance	65-69
	SO4	Actions taken in response to incidents of corruption	√	√	√	Risk governance	65-69
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	∆	∆	∆	Risk governance	65-69
Anti-competitive behaviour	SO7	Total number of legal actions for anti-competitive behaviour, anti-trust or monopoly practices	n/a	n/a	n/a	Risk governance Environmental responsibility	65-69 92-97
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	√	√	Risk governance Environmental responsibility	65-69 92-97
Customer health and safety	PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement	∆	∆	∆	Occupational health and safety	88-89
	PR2	Number of incidents of non-compliance with regulations	∆	∆	∆	Occupational health and safety	88-89
Products and services	PR3	Type of product and service information required by procedures and percentage of significant products and services subject to information requirements	∆	∆	∆	Occupational health and safety Risk governance	88-89 65-69
	PR5	Practices related to customer satisfaction	∆	∆	∆	Stakeholder engagement	70-73
ENVIRONMENTAL INDICATORS							
Materials	EN2	Percentage of materials used that are recycled input materials	√	√	√	Environmental responsibility	92-97
Energy	EN3	Direct energy consumption	√	√	√	Environmental responsibility	92-97
	EN6	Initiatives to provide energy-efficient based products and services and reductions in energy requirements	√	√	√	Environmental responsibility	92-97
Water	EN8	Total water consumption	√	√	√	Environmental responsibility	92-97
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	∆	∆	∆	Environmental responsibility	92-97
Emissions, effluents and waste	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas	∆	∆	∆	Environmental responsibility	92-97
	EN22	Total weight of waste by type and disposal method	√	√	√	Environmental responsibility	92-97
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	√	√	√	Environmental responsibility	92-97
Compliance	EN28	Monetary value of significant fines and the number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	√	√	Environmental responsibility	92-97
Overall	EN30	Total environmental protection expenditures by type	√	√	√	Environmental responsibility	92-97

GLOSSARY

ACRONYM	FULL DESCRIPTION
A&R	Audit and risk
AGM	Annual general meeting
ACI	African, Coloured and Indian
AMD	South African Aerospace, Maritime and Defence Industries Association
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
CHF	Swiss Franc
Companies Act	South African Companies Act, no. 71 of 2008
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
DD	Denel Dynamics
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
DST	Department of Science and Technology
DTA	Denel Technical Academy
dti	Department of Trade and Industry
DD	Denel Dynamics

ACRONYM	FULL DESCRIPTION
EAL	Engineering Academy of Learning
EASA	European Aviation Safety Agency
EBIT	Earnings before interest and taxation
ECS	Energy Conservation Scheme
ED	Enterprise development
EE	Employment equity
ERW	Explosive remnants of war
EUR	Euro
EXCO	Group executive committee
GBP	British Pound Sterling
GCEO	Group chief executive officer
GFD	Group financial director
GHG	Greenhouse gas
Government	South African Government
GRI	Global Reporting Initiative
HR	Human resources
IAS	International accounting standards
IDEX	UAE Defence Exhibition
IED	Improvised explosive device
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPAP	Industrial Policy Action Plan
ISO	International Standards Organization
LMT	LMT Holdings SOC Ltd (RF)
LTIFR	Lost Time Injury Frequency Rate
MEDDS	Mechem explosives and drug detection system
MoD	Ministry of Defence
MOI	Memorandum of Incorporation
MoU	Memorandum of Understanding
MRO	Maintenance, repair and overhaul
Nadcap	National Aerospace and Defence Contractors Accreditation Programme

ACRONYM	FULL DESCRIPTION
NAMMO	Nordic Ammunition Company
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
NGP	New Growth Path
NIP	National Industrial Participation
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
PAA	Public Audit Act, no. 25 of 2004
PFMA	Public Finance Management Act, no. 1 of 1999
PMP	Pretoria Metal Pressings
POLRisk	Polish Risk Management Association
PR&T	Personnel, remuneration and transformation
R&D	Research and development
RF	Ring-fenced
(Pty) Ltd	(Proprietary) Limited
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)
SAA	South African Airways
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

ACRONYM	FULL DESCRIPTION
SANSA	South African National Space Agency
SAWomEng	South Africa Women in Engineering
SAX	South African Express
S&E	Social and Ethics
SED	Socio-economic development
SGD	Singapore Dollar
Shareholder	South African Government
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SETA	Sector Education and Training Authority
SITA	State Information Technology Agency
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
Tawazun Dynamics	Tawazun Dynamics LLC
TCTA	Trans-Caledon Tunnel Authority
THRIP	Technology and Human Resources for Industry Programme
TMA	Turbomeca Africa (Pty) Ltd
TNPA	Transnet National Ports Authority
TS	Top shells
UAE	United Arab Emirates
UASA	United Association of South Africa
UAV	Unmanned aerial vehicle
UAVS	Unmanned aerial vehicle systems
UK	United Kingdom
UN	United Nations
UP	University of Pretoria
US	United States
USA	United States of America
USD	United States Dollar
WFF	Wing-to-fuselage fairing
ZAR	South African Rand

CORPORATE CONTACT DETAILS

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Registration number 1992/001337/30

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