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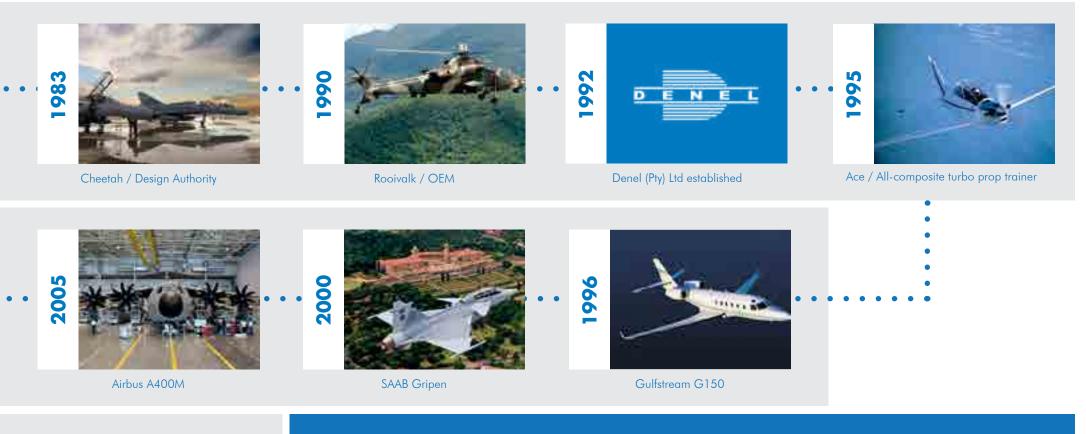


#### **DENEL AEROSTRUCTURES OVERVIEW**

Denel Aerostructures SOC Ltd is a business entity within the Denel Group, a state-owned company and South Africa's premier provider of defence, security-related and aerospace products, systems and solutions. Denel Aerostructures (DAe) is the leading aerospace company in Africa – a powerhouse in aerospace design and manufacturing for the military and commercial aviation sectors. As a strategic partner in global programmes the company continues to build on its long-standing reputation for innovation, quality and specialised solutions in aerospace design and manufacturing with over 50 years of experience in the industry. DAe uses advanced manufacturing technologies to design and produce complex composite and metallic aircraft structures which it supplies to Original Equipment Manufacturers and other aerostructure suppliers.





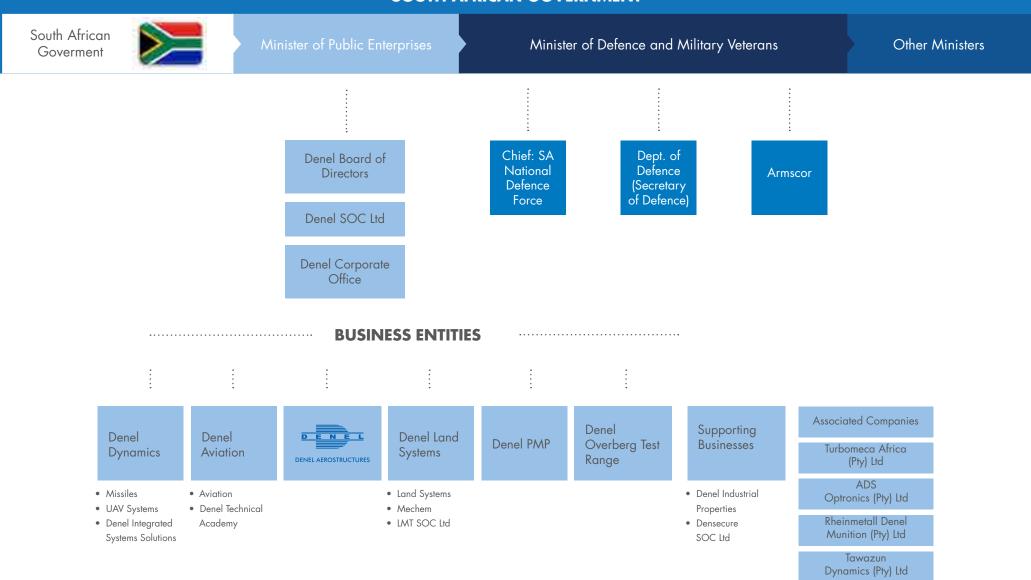


# 2014

A400M ISO Lock System

### COMPANY HISTORY

#### **SOUTH AFRICAN GOVERNMENT**





Denel SOC Ltd is a proudly South African, state-owned company reporting to the Minister of Public Enterprises. Strategic direction and oversight is provided by an independent Board of Directors while the executive management is responsible for the day-to-day operations of the company. Denel's product offerings include artillery, combat turrets, munitions, unmanned aerial vehicle systems, missiles, MRO of aircraft, the testing of airborne systems, satellite development and humanitarian demining systems.

These solutions are designed to meet unique user requirements and provide full lifecycle support which reduces the cost of ownership.

Denel plays an active role in industrial development through its comprehensive R&D programmes, manufacturing and maintenance activities and strong human capital base. The research, design, development, integration, qualification, certification and industrialisation are primarily done in-

house with significant elements of production outsourced to the broader South African manufacturing and defence industries. The Group contributes towards South Africa'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. The Denel group consists of a number of business entities.

#### DENEL AEROSTRUCTURES 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, communites, nation and the environment.



#### **ACCOUNTABILITY**

We take responsibility for our actions.





Denel Aerostructures continues to make a valuable contribution to the success of the Denel Group, South Africa's premier defence, security and technology company.

DAe is this year commemorating a distinguished half a century of leadership in the country's aerospace and aviation sectors. In the same year South Africans are celebrating the gains our country has made during two decades of democracy. Since the democratic transition of 1994 Denel has become synonymous with a transformed defence industry, which is a source of pride for all South Africans.

The Denel Group has enjoyed a successful financial year characterised by significant growth in revenue, increased profits and the largest multi-year order book in its history. The improved financial performance of Denel Aerostructures during this period contributed in no small measure to the group's overall success.

## SHAREHOLDER'S

## FOREVVORD



It is pleasing to note the consistent improvement in the company's balance sheet and the fact that it has exceeded expectations in its financial performance since the introduction of the turnaround strategy.

High-tech manufacturing in South Africa is on the brink of a new era with the implementation of the National Development Plan and Industrial Policy Action Plan. Both these seminal policy documents place strong emphasis on the ability of advanced manufacturing sectors, such as aerospace, to create skilled jobs, stimulate an interest in science and technology among our youth and deepen the country's transition to a knowledge-based economy.

We are delighted with DAe's achievement in improving its B-BEE ranking from level 6 to level 2 over the past four years and the fact that more than 90% of the company's local spend is directed towards emerging suppliers. We will continue with our drive to bring emerging companies into the international

aerospace supply chain and provide them with training and technical support.

During the past year the Denel Group launched a campaign to emphasise our shared values of Performance, Integrity, Innovation, Caring and Accountability. Denel Aerostructures has embraced these values and this is also reflected in the company commitment to transformation.

I wish to express my appreciation for the continued support that DAe receives from the Minister of Public Enterprises, the Deputy Minister and the Director General. We pay tribute to the contribution made to our business by the outgoing Minister and welcome the appointment of his successor, Ms Lynne Brown.

We also continue to enjoy productive relationships with other government departments and institutions such as Defence and Military Veterans, Trade and Industry, Science and Technology, Armscor and the CSIR.

My sincere thanks go towards the Board of Denel Aerostructures for its oversight and strategic direction. I also want to congratulate the executive management and each and every employee of the company for their contributions to this successful financial year and our on-going quest to make Denel Aerostructures a sustainable enterprise and a proud participant in the global aerospace and high-tech industries.

Riaz Saloojee

Group Chief Executive: Denel SOC Ltd







Denel Aerostructures this year celebrates a proud half century as South Africa's leading aerospace manufacturer. In this period the company has grown into an enterprise that is partnering with some of the world's leading Original Equipment Manufacturers on major manufacturing programmes. As a state-owned company it is now a true national asset that all South Africans can be proud of and will continue to play its role in government's broader objectives to promote industrialisation and high-technology manufacturing, grow the country's skills base through investment in training and expand opportunities for emerging enterprises.

I am delighted to, once again, present improved financial results for the company. Three years ago our shareholder, the South African government, demonstrated its faith in the ability of the Board and management to turn Denel Aerostructures around and to make it a profitable going concern. This confidence has not been misplaced. We are now in the third year of a five year business plan on which the government's recapitalisation programme has been predicated. All indications are that we are ahead of targets and that we should be able to break even earlier than anticipated. The Board congratulates Management for its successful efforts to improve the company's financial position and the prudent steps it has taken to restructure the

business. In this period we have renegotiated contracts with our main partner, Airbus, restructured our rental footprint and overhauled our internal controls and financial management systems.

Through a concerted focus on business development our sales has grown by 67% over the past year and our net loss has improved by 35%.

Our relationship with Airbus is one of the fundamental pillars of the business. We continue to deliver on time and on target for the major work packages we are responsible for on the A400M. Our reputation for innovation, excellence and high-quality



manufacturing has enabled us to win another vital contract on the airlifter during the past year – for the ISO Locks and Central Guide Vertical Restraint System in the A400M's cargo hold.

However, the future success of the company will be predominantly dependent on our ability to diversify the business and secure market access in new initiatives that are already on the horison within South Africa.

The decisions by the national carrier, South African Airways, as well as South African Express, to revitalise their fleets carry the prospects for significant growth in the local aerospace sector. It is expected that the acquisition of these aircraft will be accompanied by a comprehensive National Industrial Participation Programme (NIPP) with a strong focus on the benefits it can bring to the local industry.

Denel Aerostructures is strategically positioned to broaden its market access through this localisation process and contribute to ensure that the South African aerospace industry derives maximum benefits from an important procurement initiative.

This will be in line with the objectives of government's Industrial Policy Action Plan (IPAP) which has singled out aerospace and advanced materials among the sectors with the potential for long-term growth.

We are equally encouraged by the intention of government to incorporate the local aerospace industry into the Manufacturing Competitiveness Enhancement Programme. This will, no doubt, lead to a strengthened focus on innovation, research and development and investments in advanced technologies – matched by grant funding from the government.

Denel Aerostructures' proven track record of participation in global supply links and our capacity to bring smaller local enterprises into these value chains should make us a primary player within this programme.

Building on the solid base of 50 years' experience in the aerospace industry, Denel Aerostructures is now ideally positioned to diversify into other high-technology manufacturing

sectors. Discussions with Transnet and the Passenger Rail Agency of South Africa (PRASA) about our participation in their programme to procure new rolling stock and coaches have reached an advanced stage.

We are confident that our proven capabilities in the design and manufacturing of ultra-lightweight aerostructure components can be utilised on this procurement initiative resulting in maximum benefits for the South African economy, including job creation and enterprise development.

This will also be aligned with the objectives of the National Development Plan which highlights growth in the manufacturing sector through intensified Research and Development support and public procurement policies that promote localisation and industrial diversification.

The release of the 2014 Defence Review and government's acceptance of its primary recommendations will also open doors for business growth. A number of major acquisition programmes for the SA Air Force are envisaged – including maritime surveillance, strategic heavy lift and light tactical transport aircraft – and Denel Aerostructures is confident that it will benefit from the industrial participation benefits flowing from such acquisitions.

As South Africa enters its third decade of democracy Denel Aerostructures is proud of its contribution to the broader national developmental objectives. This is reflected in our internal transformation through appointments, training, mentorship and succession planning. Within a short space of four years we have improved our Broad-based Black Empowerment ranking from a level 6 to the current level 2. We have an active transformation committee in place, chaired by the CEO and we appointed a transformation champion within the company to monitor the implementation of our programmes.

We continue to be a proud subsidiary of Denel SOC Ltd, South Africa's premier provider of defence, security and technology solutions. I want to express my sincere appreciation to the Board of Denel, especially the outgoing

Chairperson, Mr Zoli N R Kunene, for its unflinching support and confidence in the sustainability of Denel Aerostructures.

Our relationship with the Denel Group has become stronger and we are proud supporters of the company's vision to move "from good, to great." During the past year we were fortunate to participate in the "My Denel, My Values," campaign, led by the CEO, Mr Riaz Saloojee, during which we recommitted DAe to the broader group values of Performance, Integrity, Innovation, Caring and Sustainability.

Our Shareholder, the South African Government, continues to provide steadfast support and guarantees for our existing business and our growth, especially in the international environment. I want to pay tribute to the outgoing Minister of Public Enterprises, Mr Malusi Gigaba, who has walked the proverbial "extra mile" in promoting the reputation of Denel Aerostructures.

We are looking forward with anticipation to work with the new Minister Ms Lynne Brown, the Deputy Minister, the Director General of Public Enterprises and senior management as the company embarks on a new phase of its proud history.

A word of sincere thanks and appreciation goes to the Board of Denel Aerostructures, the CEO Mr Ismail Dockrat, senior management and all employees of the company. We have emerged from a difficult period of restructuring as a stronger, more agile and much leaner organisation. However, it also ensured our long-term sustainability and enabled us to enter the new chapter in the company's development with greater confidence.



Gert Cruywagen Chairman of the Board



#### **GERT CRUYWAGEN (58)**

#### **CHAIRMAN**

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

OTHER DIRECTORSHIPS: Member of the King Committee on Corporate Governance, chairman of the group risk management committee of the City of Johannesburg and chairman of Cruywagen-IRMSA Risk Foundation. Trustee of GCM Trust, Tsogo Sun Group Medical Aid Scheme and Tsogo Sun Pension Fund, director of risk of Tsogo Sun group and convenor of risk work group (King II and III). South African Risk Manager of the Year in 2001 and 2009. Honorary life member of the Institute of Risk Management (UK) and honorary member of the Polish Risk Management Association (POLRisk) and the 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

Appointed to the Board on 4 October 2010

#### **BULELWA PALEDI (43)**

INDEPENDENT NON-EXECUTIVE DIRECTOR

BA, LLB, LLM

DENEL BOARD COMMITTEE MEMBERSHIPS: Non-executive director of DAe

OTHER DIRECTORSHIPS: Non-executive director of ICC (DBN), executive director Ndamase Incorporated and Faku Investment Holdings (Pty) Ltd.

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

Appointed to the Board on 20 July 2011



#### **FIKILE MHLONTLO (45)**

#### INDEPENDENT NON-EXECUTIVE DIRECTOR AND GROUP FINANCIAL OFFICER

B Compt, B Compt (Hons), CA (SA)

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees, non-executive director of RDM, Tawazun Dynamics and LMT Holdings as well as trustee of Denel Post-Retirement Trust

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 AN EXPERIENCE: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit process and strategy formulation

Appointed to the Board on 1 November 2008



#### **EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER**

MBA, Certificate in Programme Management, NDip Electronics Engineering

DENEL BOARD COMMITTEE MEMBERSHIPS: CEO of Denel Aerostructures SOC Ltd, Previous Non-Executive director of Denel SAAB Aerostructures (Pty) Ltd, TMA (Pty) Ltd and Chairman of DPS (Pty) Ltd

OTHER DIRECTORSHIPS: Former positions include CEO of Denel Aviation, CEO of Wesgro, GM at Trade and Investment South Africa (TISA) and Manager at Armscor

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic leadership, business management, programme management and turnaround management. Ten years' experience at CEO level.

Appointed to the Board on 1 March 2010









#### **CHRISTINE SLABBERT (32)**

#### **EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER**

B Compt, B Compt (Hons)(CTA), CA (SA), Advanced Executive Development Programme

DENEL AEROSTRUCTURES' BOARD COMMITTEE MEMBERSHIPS: Chief Financial Officer, Denel Aerostructures, Formerly on the Audit & Risk committee of Denel Technical Academy

OTHER DIRECTORSHIPS: Chairperson Densecure Audit & Risk, Board member Densecure.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Expertise in financial management and ensuring a good internal control environment and the implementation of corporate governance principles. Experience in turnaround strategies and the implementation thereof.

Appointed to the Board on 5 October 2010

#### **ABDUL CARIM (48)**

NON-EXECUTIVE DIRECTOR AND
DEPUTY CHIEF EXECUTIVE OFFICER DENEL AVIATION

BCom, BAcc, CA(SA)

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

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Financial management, financial reporting and management accounting Appointed to the Board on 3 August 2012







2014 is a seminal year for both South Africa and Denel Aerostructures. As a country we are celebrating 20 years of democracy, nation-building and economic growth since the democratic transition in 1994. As a company Denel Aerostructures looks back on a remarkable five decades since the decision was taken to establish the Atlas Aircraft Corporation which laid the ground for the growth of a local aerospace manufacturing industry. In the ensuing 50 years the company – which was later incorporated into the Denel Group – designed and built both rotary and fixed-wing aircraft that became the mainstay of the South African Air Force. Among these are the Oryx medium-sized utility helicopter, the Atlas

Cheetah fighter aircraft and the Rooivalk combat support helicopter, designed and manufactured by Denel.

But the past year has also been a watershed period for Denel Aerostructures because it represented a transition towards a new era of industrialisation of the country in which the high-technology manufacturing sector – including aerospace – will play a crucial role. The National Development Plan, adopted by Government as the blueprint for the country's medium term economic growth path envisages a transition towards an economy with "an increasingly diversified industrial base." The aerospace industry is singled out in the latest iteration of the Industrial Policy Action Plan (IPAP)

2014) for its potential to contribute towards industrial growth, foreign revenue earnings, local technical capability, employment generation and improvements in South Africa's national competitiveness. In support of IPAP government has launched an Aerospace Industry Support Initiative which recognises the sector's unique characteristics of value addition and technology intensity.

Within this context Denel Aerostructures is poised to enter its sixth decade as South Africa's premier aerospace company with the capacity to make a telling contribution to the growth of a future high-tech manufacturing industry. It can build on



the experience gained over the past 50 years as the inheritors of a strong tradition in aerospace design and manufacturing. The challenge is to regard this history not as a destination that has been achieved, but as a springboard for future growth and creativity. As part of the state-owned Denel Group, DAe is committed to the values of a democratic South Africa. In our corporate governance, our management culture and our business practices we demonstrate that this is a company that meets the imperatives of a new society through our commitment to the values of democracy and our achievements in the fields of skills development, employment equity and support for the growth of black-owned and emerging small- and medium-sized enterprises.

Thus, as South Africa celebrates 20 Years of Freedom, Denel Aerostructures, can look back with considerable pride at its own successful transformation into a company which reflects the social and economic imperatives of a democratic society. Over the past year more than 90% of new appointments were filled from employment equity candidates and more than 90% of all local spend was directed towards B-BBEE compliant suppliers. This approach is also recognised in our Broad-based Black Economic Empowerment (B-BBEE) ranking which has improved from level 6 to level 2 since 2010. As a proudly South African company we are committed to make a meaningful contribution to meet the country's national developmental priorities. Among these are skills and supplier development, growing the strategic technology base and creating skilled jobs that bring downstream benefits to broader society. We are aware of the high barriers of entry that exist within the international aerospace supply chain and have started a process through which we can provide emerging companies with support in the fields of quality assurance, special manufacturing processes, oversight and training.

#### **TURNAROUND AHEAD OF TARGETS**

On the financial side the success of our turnaround strategy is being reflected in our growth in revenue, our imminent return to profitability and our achievements in production output. In the 2012 National Budget, Government decided to allocate R700-million towards the recapitalisation of Denel Aerostructures. The decision was based on recognition of the strategic value that the company can bring to the long-term growth of the aerospace and advanced manufacturing sectors but also demonstrated the confidence of the shareholder in the ability of the Board and management of Denel to turn DAe around.

As a company we have accepted this challenge with vigour and enthusiasm and adopted a comprehensive five year business plan to meet the requirements set by the shareholder for the recapitalisation. At the time it was envisaged that the company will reach the break-even point during the 2016/17 financial year. I can state with a high degree of confidence that the milestones of the turnaround process has been reached and that Denel Aerostructures should be able to achieve profitability ahead of the envisaged target date. We can report a 60% increase in revenue over the past financial year and our net loss has improved to R33-million from the previous figure of R51-million.

We have built up sufficient momentum to sustain the long-term financial future of the company. The key focus, going forward, is to continue growing the company's revenue base to achieve long-term sustainability. According to all other yardsticks of success Denel Aerostructures can already be considered as a company that has been successfully turned around.

#### PLANNING FOR NEXT PHASE OF GROWTH

In its first 50 years Denel Aerostructures has been closely associated with the South African defence and security communities. The products we designed and manufactured have supported our armed forces especially since the democratic transition of 1994. In the past year alone the Rooivalk combat support helicopter was deployed with considerable success in support of South Africa's contribution towards peace-making and peace-keeping operations on the continent of Africa.

The company is already planning for a phase of new growth once the financial turnaround has been completed. We are looking

at the utilisation – and possible expansion – of our capacity, equipment, people, infrastructure and other resources. We are actively exploring possibilities of diversifying into areas such as the rail industry and solar energy – building on our existing technology and the resources we have accumulated within the aerospace environment. The experience we have gained in the defence environment can be utilised with equal success in the civilian aerospace and aviation sectors.

#### **OPPORTUNITIES TO GROW THE BUSINESS**

Two of South Africa's state-owned aviation companies have announced their intentions to embark on a comprehensive fleet renewal programme. South African Airways (SAA) intends to replace its long-haul destination fleet while regional carrier, South African Express will procure new aircraft to be used on short- and medium distance routes. A fleet procurement process, overseen by the Department of Public Enterprises, has been put in place and original equipment manufacturers will be invited to tender for the delivery of the new aircraft fleets.

Government has already indicated that the fleet acquisition programme must deliver maximum benefits to the local manufacturing sector in line with its broader objectives to deepen South Africa's industrialisation programme and stimulate job creation. The acquisition will be accompanied by an industrial participation programme through which the original equipment manufacturer places certain manufacturing packages with local industry or enter into joint ventures with local companies.

The National Industrial Participation Programme (NIPP) identifies aerospace as a strategic priority for such offset investments and Denel Aerostructures has the capacity, the experience and the facilities to play a leading role in this initiative.

Our experience as a top tier supplier of complex aerostructures to Airbus is well-documented. In addition we have grown and deepened our business relationships with other global OEMs such as Alenia, Embraer and Gulfstream. We occupy a niche



position in South Africa because of our proven ability to design and produce ultra-lightweight aerostructures that meet all the stringent requirements laid down by global OEMs. This places Denel Aerostructures in a strategic position to benefit from the fleet acquisition programme, irrespective of the decision on which aircraft will be purchased.

#### IMPACT ON AEROSPACE INDUSTRY

Given DAe's success in the fields of enterprise and supplier development a logical outcome of the acquisition process will be a growth in the number of small and emerging private sector companies that will be brought into the supply chain and gain experience in working on global manufacturing contracts.

DAe's participation in the fleet procurement programme will be consistent with the company's ambition to become a producer of aircraft structures for civilian aircraft. We can use the NIPP as the primary lever to secure more market access and it has the potential to be the key driver of our business in the years to come.

Another opportunity for the company is to use the company's accumulated technology, skills and experience to support South Africa's intended overhaul of railway rolling stock. Modern railway coaches are increasingly constructed out of lightweight but durable aluminium and composite panels.

Our company has pioneered the local design and manufacturing of ultra-lightweight aerostructure components using composites and aluminium. The advanced machinery and processes already in place to meet the exacting requirements of the aerospace industry can be configured to produce interiors and fittings for modern railway coaches. Denel has already engaged Transnet and the Passenger Rail Agency of South Africa (PRASA) to discuss business opportunities and future areas of cooperation.

#### STRENGTHENED RELATIONSHIP WITH AIRBUS

Our plans for the future expansion of the business will not result in a diminished focus on our existing contracts. On the contrary, our relationship with Airbus has deepened in the past financial year and we remain immensely proud to be a top tier supplier on the A400M programme to manufacture the world's most advanced military airlifter. In the previous financial year we secured a third major work package for the manufacturing of the Ribs, Spars and Sword (RSS) of the A400M distinctive vertical tail plane. This was in addition to the design, industrialisation and manufacturing DAe has already been doing on the Top Shells and the Wing-to-Fuselage Fairing.

We have now ramped-up the production on all three contracts to the point where we are delivering 16 ship sets per annum – which represents a doubling of production compared to the previous year.

This achievement, no doubt, contributed to the improved financial performance of the company and I want to pay tribute to management and the entire workforce of Denel Aerostructures for their efforts to make this a reality. Our reputation as an on-time, on-quality and on-cost top tier supplier to Airbus has led to its recent decision to place a fifth



work package with Denel Aerostructures.

The global OEM has awarded us two new multi-million rand contracts on the A400M cargo hold – for the ISO locks and the Central Guide Vehicle Restraint System (CGVRS). These tenders were won following a very competitive international bidding process and bears testimony to the confidence the client has in our company, based on our delivery on existing projects. On both these new contracts we will ramp up serial production over the next 18 months with the objective to deliver at least two ship sets per month for the duration of the six year contract. The contract will cascade down to other companies in the aerospace and high-tech sectors with some of the manufacturing processes being sub-contracted to our local supplier base. The ISO locks will be fitted to each of the 174 aircraft already ordered from Airbus and DAe will deliver at least 20 ship sets a year over the six year contract period.

#### **CONCLUSION:**

We continue to value our relationship with Denel SOC and the divisions within the Group. Under the current Board and Executive Management, Denel has grown into a significantly stronger unit with a high level of horizontal cooperation between companies.

At Denel Aerostructures we enthusiastically support the objectives of the group to grow from being a "good company" to becoming a "great company." We also embrace and subscribe to the core values of the group – the values of performance, integrity, innovation, caring and accountability. Through the decades the global aerospace and aviation sectors have sparked innovation and pushed the boundaries of research and development. In South Africa, Denel Aerostructures and its successor company have been at the forefront of these efforts to test the limits of knowledge and capabilities.

As we enter the company's sixth decade as a recognised global player in aerospace and high-technology, Denel Aerostructures is determined to keep up this proud tradition.

AT DENEL AEROSTRUCTURES
WE ENTHUSIASTICALLY
SUPPORT THE OBJECTIVES
OF THE GROUP TO GROW
FROM BEING A "GOOD
COMPANY" TO BECOMING
A "GREAT COMPANY."



Ismail Dockrat

Chief Executive Officer





#### **OPERATIONAL FOCUS**

From an operational perspective the year under review has been characterised by the production ramp-up from eight to 16 ship sets per annum on the A400M Wing-to-Fuselage Fairings (WFF) and the Top Shells (TS). With revenue increasing by more than 60% and maintaining on-time deliveries, meeting all quality standards, the implementation of an aggressive but focused programme to drive operational industrial capability evolution has proven itself. On-going alignment and integration across the value chain through a well-developed production planning system is being realised.

The turnkey design to manufacturing of ultra-lightweight aerostructures remains an important distinguishing feature of our operations. The focus of this technology lies within the ability to perform high-speed, deep pocket, thin web machining and produce double curved, lightweight, composites material panels as well as complex aerostructures assemblies, meeting international aerospace quality standards.

With higher levels of capacity utilisation the importance of not underestimating lead time required to establish reliable capacity growth and the requirement to start early with the development of a local/global supply chain with a concerted focus on developing reliability of supply has been highlighted.

#### **CAPACITY GROWTH UTILISATION**

Investing in future capacity growth of critical technologies came in the form of a new, large scale, high-speed, 5-axis milling machine, a third autoclave and state of the art, non-destructive testing capabilities. Greater focus is being placed on ensuring overall equipment effectiveness. This is being achieved by implementing the following strategies:

 Maximizing equipment availability through investment in critical spare parts and stronger partnerships with maintenance service providers.

## DAE HAS BEEN VERY ACTIVE TO REDUCE ELECTRICITY CONSUMPTION AND PARTICIPATED IN A GROUP-VVIDE ENERGY SAVING CAMPAIGN.

- Enhancing productivity through lean manufacturing as part of our continuous improvement program (STEP) and placing more focus on manufacturing process development and innovation.
- Optimising capacity utilisation through the introduction of shift work and flexitime on all critical equipment to meet ever-growing demands.
- Launching a STEP initiative to identify parts with potential for further producibility enhancements thereby reducing rework and scrap levels to improve effective operating time.

With our local B-BBEE supplier partners including, Aerosud, Daliff, Cliffsway, Micromax and Safomar DAe has a sound platform to further increase capacity and grow revenue. A number of local black-owned suppliers are participating in the DAe enterprise development initiatives. Progress was made by conducting quality audits and providing these companies with financial training.

#### STRATEGIC OBJECTIVES

The above status denotes a transition for DAe from overcoming barriers to entry towards strong competitive positioning within the aerostructures manufacturing market. Market access through localisation on the back of Government's aircraft fleet procurement remains key. Constructive and rewarding engagements with on-going support from Government are in place to maximise National Industrial Participation benefits.

DAe is aligning itself to move from a high technology job shop operation towards commercial serial production. This phase will be characterised by stronger emphasis on new product integration requiring on-going expansion of our facility and implementation of innovative manufacturing process methods and techniques through tighter integration between our industrialisation and engineering resources and stronger collaboration with local industry partners and national research agencies.

DAe has been very active to reduce electricity consumption and participated in a group-wide energy saving campaign. A saving of around 20% in electricity utilization was achieved through the campaign and the large scale consolidation of our rental footprint and facilities.

DAe has developed a sound platform to further increase capacity and grow revenue

Theo Kleynhans
Chief Operations Officer





Denel Aerostructures has achieved its corporate plan and exceeded financial performance expectations for four consecutive financial years.

"We believe that we could not have achieved these successes without incorporating and strengthening good corporate governance, strict financial control and review, as well as the contribution of each and every employee within the company.



	2014	2013
	RM	RM
Revenue	438	262
Export Revenue	361	189
EBIT	(44)	(46)
Loss for the year	33	51
Confirmed order book	1958	1619
Workforce complement headcount	418	396
B-BBEE status	2	3

#### HIGHLIGHTS FOR THE YEAR

- Sales growth from previous year: 67 %
- Net loss improvement from previous year: 35%
- Revenue per employee: R 1 045 559. (2013: R660 415)
- A400M deliveries increased from 8 to 16 units from the previous year.
- Gross loss percentage improvement from 18.16% in 2013 to 6.9% in 2014.

#### **NET LOSS**

DAe has met and exceeded the budget and reduced the net loss with R18 milion to the previous financial year.

#### **REVENUE**

DAe has secured new work packages from Airbus on the A400M programme. The revenue for the year under review has grown to R174 milion more than the previous year, and has exceeded the budget with R112 milion.

#### **DEBTORS**

Strict controls remained in place and no bad debts were written off during the financial year. The outstanding debts have been collected within the agreed terms.

At year-end the debtor's days outstanding were 20 days.

#### **IMPAIRMENT**

Due to the improved economic environment DAe has experienced increased orders leading to PPE (machines) operating at an increased capacity. 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 R42million.

#### **CASH FLOW:**

The net cash outflow for the year amounted to R129 million which was R12 million better than forecasted. The positive balance in the loan account at 31 March 2014 is R323 million and should be sufficient to carry the company until it becomes cash positive in 2017/18.

#### **AUDITS**

DAe achieved an unqualified audit report for the 2013/2014 financial year with no significant audit issues from our external auditors SizweNtsalubaGobodo. Management wants to thank the external audit team for the professional manner in which the year-end audit was conducted.

Christine Slabbert
Chief Financial Officer







It is said that the only limits we have are the ones we place on ourselves. For the financial year under review, Denel Aerostructures (DAe) has challenged its previous performance by pushing beyond its boundaries and doubling its programme deliveries on the flagship A400M programmes. The increase in production from eight ship sets in 2012/13 to sixteen in 2013/14 on the Wing-to-Fuselage Fairing (WFF) and Top Shells (TS) programmes was executed with precision but was not without its unique set of challenges. Despite having faced industrialisation issues, machine breakdowns, surface treatment difficulties and a developing supply chain,

DAe achieved its planned deliveries for the year as part of its advanced manufacturing schedule. Towards the latter part of the year the WFF programme celebrated its thirteenth consecutive on time completion whilst the TS programme improved to achieve its planned Ship in Place dates on the last delivery for the financial year.

Steady progress was made with the transfer of the Ribs, Spars and Sword (RSS) work package, from Airbus Germany to DAe, as first article production parts were manufactured and accepted by Airbus in August 2013. Full RSS ship set production will begin in the third quarter of 2014. As with all new programmes, DAe had to address a myriad of industrialisation, qualification and manufacturability issues.

DAe is contracted by Airbus for the design, development, manufacture, supply and supporting activities of the Airbus A400M Wing-to-Fuselage Fairing (WFF), Top Shells (TS) and Ribs, Spars and Sword (RSS) structural components. As a result of firmly cementing itself as a credible supplier in Airbus' global supply chain network, DAe was invited to tender on further A400M business opportunities. After several rounds of

bidding, DAe was successfully awarded two of four A400M Cargo Hold System work packages which went out on tender in May 2013. The ISO-Locks and Central Guide Vertical Restraint System (CGVRS) work packages will substantially support revenue contribution going forward. Industrialisation for these work packages will commence by the third quarter of 2014.

Whilst the A400M programmes have enjoyed the limelight, the unsung G150 programme continues to deliver on time and within the required quality.

DAe has currently completed all the required empennages on order. In addition to the new A400M programmes, DAe made a significant breakthrough in the business jet market as part of its development strategy to focus on the manufacture of complex composite and metallic structures. The Honda Jet Winglets contract was awarded to DAe in 2012 and represents an important milestone for DAe as it enters into the North American commercial business jet market. Industrialisation of the winglets continued in 2103/14 with the First Article Inspection parts being planned for completion in September 2014.

Notwithstanding DAe's international customers, programme support for engineering and manufacturing services to other Denel entities is becoming an important and growing focal area. Over and above the continued Rooivalk support, DAe has provided its services to Denel Aviation's Prowler and South African Regional Aircraft (SARA) development programmes and Denel Dynamics Seeker 400 Unmanned Aerial Vehicle (UAV) wing and fuselage optimisation initiative.

The bid room function within the Programmes department has played an instrumental role in supporting business development and securing new work.

For the financial year 2013/14, this function has been inundated with requests for quotations, with an unprecedented 203 bid proposals being generated totalling R 5.3bn. Through

continued and engaging interaction with potential customers, DAe has made substantial inroads into developing relationships with super Tier 1 companies (PAG and Sogerma) to Airbus and this is being demonstrated by the number of RFQs received. Other major role players within the international Aerospace industry, to which bids have been submitted, include Saab, GKN and Alenia.

As part of its diversification strategy, DAe has investigated PRASA's (Passenger Rail Agency South Africa) key strategic programmes to modernise and revamp its rail system, which includes the acquisition of new modern rolling stock fleet to the value of R123.5bn over 20 years. Beyond the current focus of Denel (Aerospace and Defence economic sector), the PRASA strategic programme presents a key opportunity for DAe to further exert its goal of revenue growth while deepening the industrial base, developing skills, growing lower tier SMME's and creating sustainable jobs.

For the financial period under review, DAe has submitted four major proposals to Alstom related to sheet metal work packages for the cabin interiors.

Through a proven track record of on time, on quality deliveries, DAe is being recognised as a significant and competitive global supplier. This is evidenced by the volume of additional short and long term work being placed on DAe by Airbus as well as the positive feedback received directly from the customer. Winning new business is underpinned by this reputation coupled with an aggressive pricing strategy and the agility to meet market demands. With a solid foundation of lessons learnt in 2013/14 and by challenging conventional thinking, Denel Aerostructures is poised to exceed expectations in 2014/15.

Thivian Vadivelu Executive Manager: Programmes











# EXECUTIVE MANAGER: HUMAN RESOURCES

The Human Resources strategies within Denel Aerostructures (DAe) are aligned to support the business objectives of DAe, as well as National objectives set by our shareholder DPE. DAe is committed to the development of people and has compiled programmes to ensure that employees reach their full potential, experience job satisfaction and improved commitment to the company.

### **ARTISAN TRAINING**

DAe offers two types of formal apprenticeship programmes in collaboration with the Denel Technical Academy, a programme for school leavers and one for adult employees. School-leaving learners spend the first year on theoretical training and the remaining two years undergoing practical training. The artisan training covers a wide spectrum of skills and aircraft- and engineering- related disciplines including aircraft composites, aircraft structural work, fitting and turning, machine tool millwright, tool and jig and turner machinist.

The adult artisan programme, assists employees who do not have any theoretical training but have extensive on-thejob experience. These employees need to complete specific practical and theoretical training to qualify as artisans. There are currently 15 employees on the internal adult artisan training scheme and 24 learners on the formal apprentice training scheme in the various trades as mentioned above, which will impact positively on the South African economy by providing highly sought-after artisans for the industry.

### **TRANSFORMATION**

DAe has been evaluated by an external agent on B-BBEE and obtained an overall level 2 score for the 2013/2014 financial year. The target for the coming financial year is to maintain an overall level 2 score with specific emphasis on improving the scores for employment equity and expenditure on black



owned suppliers. This is also in line with our strategy towards maintaining a positive B-BBEE score even under the new codes that are imminent.

### **IMPROVING ORGANISATIONAL CLIMATE**

The plans to improve the organisational climate are evaluated by an external consultant and the overall score has improved from 78% in 2011/2012 to 85% for the 2012/2013 financial year. The target is to maintain the score for the current year, and maintain a positive and productive working environment. We had a successful launch of our group values whose focus is to ensure a positive organisational climate in the Denel Group.

# LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

Denel Aerostructures ensures participation in the Denel Leadership programmes provided by UNISA, which provides leadership and management development for employees at different levels of their careers. There are three programmes designed to cover the junior, senior and executive levels within

the organisation. Leaders and employees with leadership potential at various levels in the company are participating in this programme.

We strongly believe in continuous professional development to encourage life-long learning and to encourage a learning culture within the organisation.

### MENTOR/MENTEE PROGRAMME

We successfully completed the formal mentorship program over a 12 months period with a total number of 18 mentors and mentees. The programme has been an essential first step towards knowledge transfer - all partnerships indicated that they would continue their relationships and to meet and support each other through the "myMANAGER-myMENTOR" process. The lessons learned during the first program will be incorporated in the roll out to future groups.

### **CAREER PATHS**

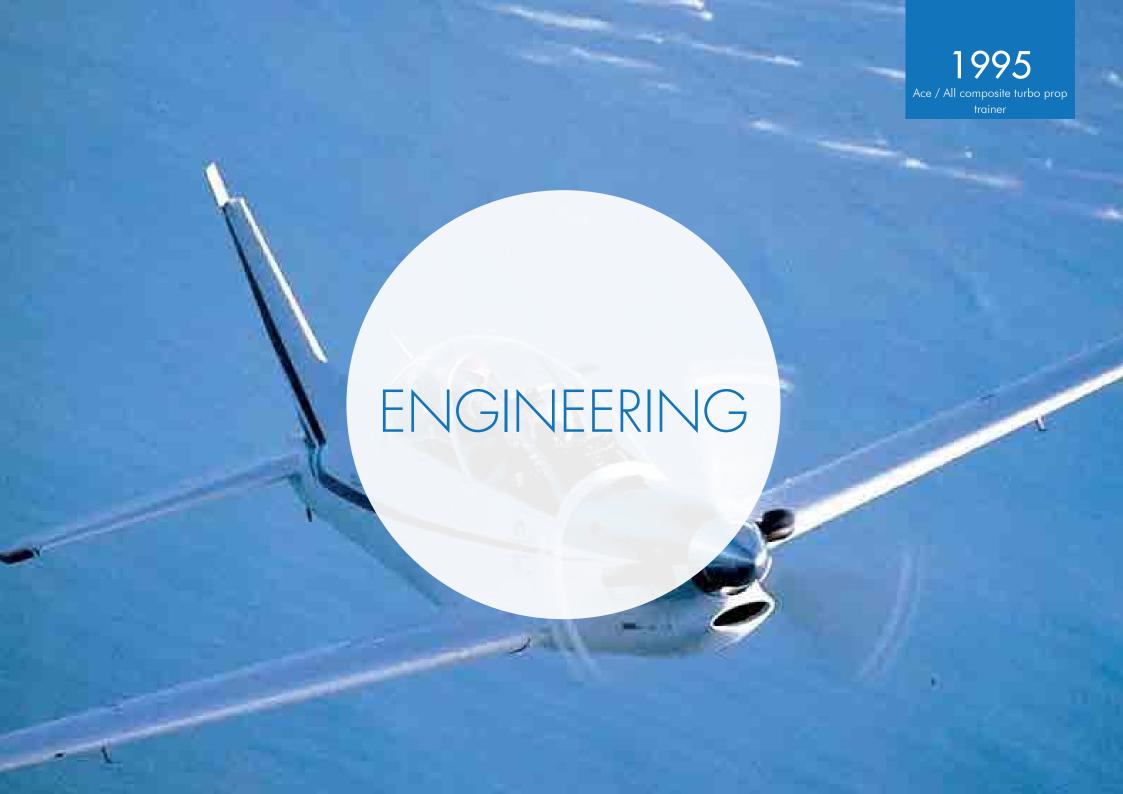
Career paths within the engineering, technical and artisan categories have been established with related criteria to progress between the different levels within the job category. Evaluation of employees is done once a year to ensure that employees progress in the various technical fields.

### **AWARDS**

The Denel Aerostructures CEO awards will be repositioned to embrace the Denel group values of "performance, integrity, innovation, caring and accountability." The awards are aligned to the Denel Group CEO awards and demonstrated the commitment to 'live the values'.

Sithembile Bhengu

Executive Manager Human Resources





# EXECUTIVE MANAGER: ENGINEERING

Engineering's value to any business is not only to do product development, but to deliver structured solutions to a range of current business- and customer needs. During the year under review DAe engineering continued to extend its direct support to its production environment, while also responding successfully to specific needs of its main customer and other Denel entities.

DAe Engineering's main activities remained on its Airbus A400M programmes. On the Wing-to-Fuselage Fairing

(WFF) and Top Shells (TS) work packages, design activities transitioned from baseline design to sustained engineering in support of DAe production as well as the Airbus final assembly line (FAL). Structural analysis activities focused on the last remaining certification dossiers and the Structural Repair Manual (SRM). On the A400M Ribs, Spars & Sword (RSS) programme DAe has had increased activities on the certification test programme for the 'Transfer modification' to award DAe delegated design authority on this package, following the recent transfer of RSS manufacturing to DAe.

A major highlight for the A400M programme was achieved with the 'Entry into Service (EIS)' milestone when the first serialised solution of the MSN0007 baseline was delivered to a customer in June 2013. DAe engineering takes great pride in consistently retaining its GREEN rating with Airbus in all Programme Review Meetings throughout the year.

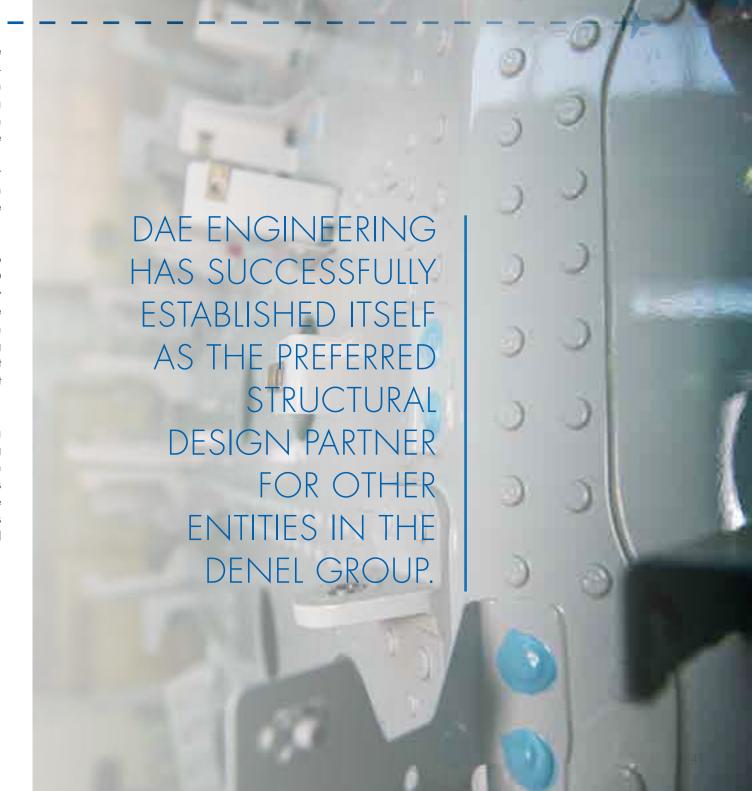
DAe Engineering has successfully established itself as the preferred structural design partner for other entities in the Denel group. In addition to the on-going design support on

the Rooivalk combat support helicopter, DAe has also made significant progress in the conceptual design of Denel's 24 seat turboprop regional aircraft called SARA –" South African Regional Aircraft" – as well as the initial design of a rotary wing unmanned aerial vehicle. For both programmes Denel Aviation is the OEM and system integrator of the flying platform, while DAe is responsible for the structural design of the airframes. DAe has also successfully completed a design optimisation for Denel Dynamics on the Seeker 400 wing which resulted in significant weight saving and performance improvement of the aircraft.

Regarding research and development DAe has continued to focus a large portion of its resources towards industrial R&D for manufacturing process enhancement, qualification of new materials and development of standard repair schemes. DAe has also extended its external network with collaboration partners with the signing of a Memorandum of Understanding between the Denel Group and the CSIR and initiation of its first co-funded R&D project with DTI's Aerospace Industry Support Initiative (AISI).

Human capital remains the biggest asset of any engineering fraternity. Although DAe reduced the size of its engineering fraternity in line with operational requirements, the main focus was on the exit of foreign contractors and DAe was able to retain the high competence and experience of its core permanent employees. DAe continued to invest in future skills with sponsorship of continued tertiary training and internal incubation programmes for its young engineers.

Willie van der Walt Executive Manager: Engineering







# EXECUTIVE MANAGER: BUSINESS DEVELOPMENT

With a renewed focus on growing revenue and achieving sustainable growth in the medium to long term, Denel Aerostructures (DAe) has managed to improve its overall positioning in the market place during the year under review.

DAe has been successfully incorporated into the 20-year Ekurhuleni Aerotropolis initiative. Due to its advanced aerospace manufacturing capabilities and the close proximity of the DAe facilities to the OR Tambo International Airport, DAe has also been identified as the core of the Ekurhuleni Aerotropolis initiative. In

April 2013, DAe hosted over 120 international delegates on a facility tour. These delegates had attended the annual Aerotropolis conference hosted by the Ekurhuleni municipality.

The market intelligence and understanding that is gained through commercial participation in the market has enabled DAe to improve effectiveness with which it performs a co-ordinated engagement with the global aerospace market, OEMs, Tier 1 and Tier 2 companies, and the local aerospace stakeholder environment. During the year under review, DAe has seen

significant increases in the volume and rate of requests for quotes, requests for information and requests for proposal received by the bid room, exceeding the R6.5 billion mark of bids responded to.

The incorporation of new business from the Tier 1 environment has remained a focus element of the business development strategy for DAe, with the aim to diversify the customer and product portfolio away from Military aircraft platforms, towards commercial aircraft platforms.

During the Paris Airshow in 2013, DAe, together with Airbus Military, hosted a media event around the ceremonial awarding of the contract to manufacture the Ribs, Spars and Sword work package of the A400M. The good relationship between DAe and Airbus Military has improved our market access into the European supply chain, leading to more commercial bidding with renowned Tier 1 and Tier 2 companies, including Airbus as an OEM. During the year under review, DAe has achieved significant milestones having due diligence assessments conducted by tier one companies such as the UK-based GKN Aerospace and the French-based Sogerma, an Airbus group company.

Following the successful 2012 signing of the MOU between Denel Group and Italian-based Tier 1 supplier, Alenia Aermacchi, DAe has made inroads in developing a strategic partnership with Alenia Aermacchi which pivots on the manufacturing of major sections of the ATR 42/72 aircraft. This partnership will see the development of manufacturing capability for large, complex structures on a commercial platform in South Africa and Africa at large, similar to the successful story of the Airbus A400M work packages.

As part of our business growth strategy, DAe has commissioned the establishment of sustainable strategic partnerships based on the aerospace business growth trends towards the Middle East (UAE) and South East Asia (Malaysia). Leveraging on the current footprint that Denel Group has established in these two countries, DAe made inroads to use its advanced design and manufacturing capabilities to create a value proposition to these markets. These have resulted in the following:

- Various bids from Strata (UAE) and CTRM Aero Composites (Malaysia)
- Signing of an MOU with Strand Engineering on Human Capital Development
- Hosting senior delegation visits from MIGHT, the Malaysian Off-set Value Accounting authority, in collaboration with the South African Joint Aerospace Steering Committee.
- Through the support of the Shareholder, DAe has

managed to strengthen its relationships with other aviation/aerospace related State-owned Companies and the Department of Defence, in line with the imminent fleet acquisitions programmes. The improved market access and economic sustainability benefits that can be derived from National and Defence Industrial Participation Programmes (NIPP and DIPP) provides DAe with a once in 20 year opportunity from which to advance strong revenue growth initiatives and a further manufacturing capability enhancement for South Africa Incorporated, in the sphere of the global commercial aircraft supply chain. Significant milestones have been achieved in positioning DAe to secure sustainable new business arising from the NIPP and DIPP opportunities arising from the following aircraft fleet acquisition programmes:

- SAA Widebody aircraft
- SA Express (SAX) regional jets
- DoD Maritime Surveillance/Patrol aircraft
- DoD VIP Jet
- DoD Strategic Heavy Lift aircraft
- DoD Light Tactical Transport aircraft

Based on the positioning for these industrial packages, DAe has redefined its capital expenditure planning to focus on new manufacturing technologies and capabilities that will enable the DAe product portfolio strategy to expand and specialize in the following Aerostructures components:

- Fuselage Shells
- Fairings
- Landing Gear Doors
- Empennages
- Wingtips
- Cargo hold structures

Under the auspices of revenue growth through diversification and localisation opportunities arising from state acquisitions, DAe has embarked on an initiative to diversify into rail manufacturing. Deriving from the PRASA rolling stock fleet

procurement programme DAe leads the Denel rail initiative, focusing on the manufacture of interior components for coaches. During the year under review, the following milestones have been reached:

- Passing all due diligence audits and assessment by Alstom, the winning bidder on the PRASA programme.
- Becoming the first South African supplier to be qualified and registered on the Alstom supplier database, achieving the highest score card rating in South Africa.
- Concluding framework agreements governing the awarding of future business on the PRASA programme
- Going beyond the bidding stage of best and final on three work packages on the PRASA programme.

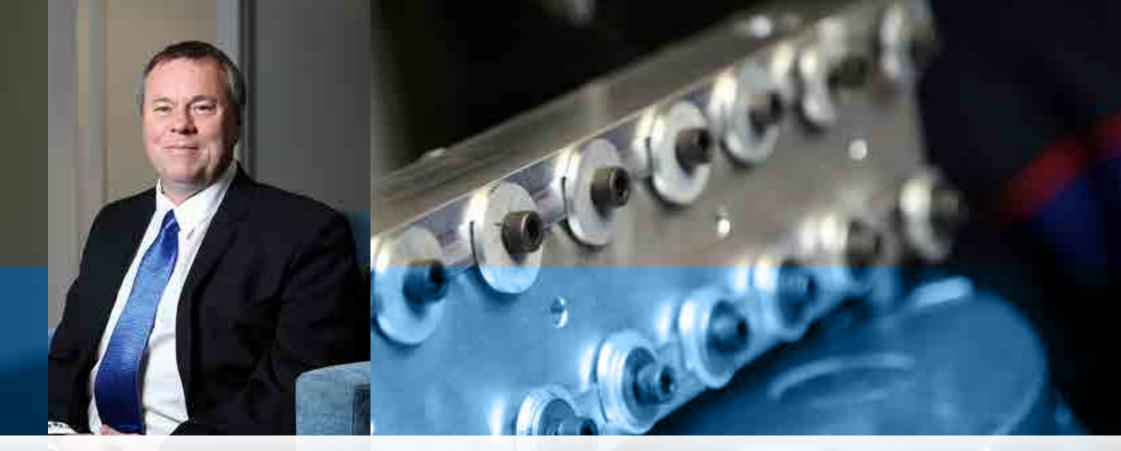
DAe continues to engage with other rail-related SOCs such as the Transnet group to secure more work. Winning more rail work will see the establishment of a separate rail manufacturing facility. Diversifying into rail will enable DAe to drive the following:

- Deepen the Industrial base
- Skills development and transfer
- lob creation

### **Victor Xaba**

**Executive Manager: Business Development** 





# EXECUTIVE MANAGER: QUALITY

Quality is a measure of excellence or a state of being free from defects, deficiencies and significant variations. This is brought about by strict and consistent commitment to standards that achieve uniformity of a product in order to satisfy specific customer or user requirements.

### **QUALITY SYSTEM**

A new intranet-based Quality System has been developed within DAe during 2013 / 2014 to include the configuration and usability of the company's tried and tested quality management system. Training and implementation is being rolled out across the company. Many benefits and

improvements have been incorporated into the new system to allow it to be much more user friendly for all employees. The eB configuration system will now dynamically control all updates to ensure full compliance with the AS9100 Revision "C" requirements. Navigation through updated hyperlinks and icons will allow the user easier access to information.

### **QUALITY CONTROL - MECHANICAL**

2013 / 2014 has seen focused growth for Quality Control with the introduction of new technologies to improve throughput, resulting in more efficiency throughout the inspection process. A Laser T probe tracker was incorporated into the assembly line to allow all products to be controlled to tight tolerances reducing any possibility of interface problems at the next assembly stages. The T probe allows for a direct comparison to the 3D catia models; dramatically reducing human intervention requirements.

A new Romar arm laser scanner has also been introduced within mechanical detail inspection to improve small machined parts throughput. This laser scanner produces a point cloud image that conducts a direct comparison to the 3D catia models making it more efficient than the older CMM technology.

### **QUALITY CONTROL - COMPOSITES**

DAe is a producer of high-technology composite parts for various international aerospace companies, performing both honeycomb and monolithic components and the testing thereof.

DAe launched a Non-Destructive Testing program within the ultrasonic and fluorescent NDT processes, whereby ACI students from the Vaal Technical College were trained and given both theoretical and practical experience. The program was so successful that two of the students are now permanently employed within DAe.

DAe successfully expanded its NDT Nadcap approvals which now incorporates ultrasonic crack detection along with the previous accreditations for magnetic and fluorescent crack detection. A new Phase array ultrasonic process is currently under technical qualification for approval.

### SAFETY, HEALTH AND ENVIRONMENT

DAe is in the process of obtaining certification into new management systems namely: The Environmental Management System ISO 14001 and the Occupational Health and Safety Management System OSHAS 18001. These two management systems are planned to be in place towards the end of the calendar year.

Quality Accreditations
Bureau Veritas AS9100 Rev "C"
Numerous OEM Special Process Qualifications
Nadcap Accreditations for the following special process disciplines:

- 1. Chemical Processing
- 2. Non-Destructive Testing (Magnetic, Fluorescent and Ultrasonic)
- 3. Composite Manufacturing
- 4. Aluminium Heat Treating

Chris Hughes
Executive Manager: Quality









This sustainability report provides a balanced, transparent and understandable view of DAe's sustainability activities during the year under review. It includes the company's impacts and contributions to the economic, social and natural environment in which it conducts its business. The report presents a balanced view and discloses the company's attitude and commitment to sustainable development, and is a means of communicating its attitude and commitment to its Shareholder, partners, customers, employees, stakeholder communities and the general

public. The sustainability report provides comprehensive commentary on the organisation's sustainability and transformation efforts, as well as key non-financial performance indicators. The sustainability report presents a balanced view and disclose relevant and material information to stakeholders.

The report is based on global reporting initiative (GRI) guidelines and leading practices within the defence and aerospace industry.



# SUSTAINABILITY VISION, STRATEGY AND COMMITMENTS



### STRATEGIC RELEVANCE OF THE ENTITY:

Catalyst for aerostructures advanced manufacturing in the broader economy and foreign currency earner through exports.

### **VISION:**

The reliable African link in the global aerostructures supply chain:

- Providing on-time quality, service and value for our customers
- A prosperous company for our employees and owners.

### **MISSION:**

- Uses advanced manufacturing technologies to design and produce complex composite and metallic aircraft structures.
- Positioned as Tier 1 and 2 suppliers in the international aerospace supply chain, supplying aerostructures to OEM's such as Airbus & Super Tier 1 customers.

 Developing and working with local Tier 3 and 4 parts manufacturing suppliers as part of its growing supply chain.

### **CORE PRODUCTS:**

Design and manufacturing of metallic and composite aerostructures at Tier 2 level (i.e. major aerostructures subsystems)

B-BBEE rating: Level 2

### STRATEGIC IMPERATIVES:

In reviewing the DPE's strategic intent relating to DAe, the most relevant strategic imperative is to "act as a catalyst for advanced manufacturing in the broader economy and to export products to improve revenue". With regards to the additional drivers, all remain relevant and form part of the DAe business strategy and turnaround plan. The following is worth noting in particular:

- Towards "Rationalization of the business" DAe has completed its "scale to A400M capabilities" strategy and consolidated its operations.
- Towards "Extending the range of business" >90% of DAe's production is currently for the export market and the business development strategy has specific focus on increasing its "commercial aerospace" portfolio. While growing and retaining its existing advanced manufacturing technologies the company intends to reduce its dependence on local defence budgets.
- Towards "Skills development and transformation" DAe
  has improved its B-BBEE rating, transformation actions
  are on-going and DAe is playing a unique role in the
  development of aerospace and advanced manufacturing
  skills on all levels from artisan through to engineer.



### **STRATEGIC DRIVERS:**

Linked to the DPE strategic intent, the following are considered strategic drivers for DAe:

- Government's National Development Plan (NDP) and Industrial Policy Action Plan (IPAP) mandate a movement to a knowledge-based economy to achieve sustained economic growth and social development.
- In developing countries, such as South Africa, advanced manufacturing and other productive sectors of the economy are regarded as the engines of long-term sustainable growth and job creation.
- Aerospace is the most effective sector for the generation of industrial technology and development of technical skills to drive economic development (aerospace has an economic impact multiplier effect of 4).
- IPAP priority sectors include advanced materials and aerospace which have the potential to develop long-term advanced capabilities in South Africa.
- The IPAP Aerospace Sector Development Plan (SDP) has been finalised by DTI/DST and industry (AMD), with the establishment of a Joint Steering Committee for Aerospace.
- Fleet renewal programmes announced by South African Airways and South African Express will be accompanied by significant National Industrial Participation Programmes (NIPP) with significant benefits for the local aerospace and advanced manufacturing sectors.
- The implementation of the 2014 Defence Review and the envisaged procurement of new strategic aircraft by the SA Air Force will lead to opportunities for Defence Industrial Participation Programmes (DIPP).

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

 The design, qualification, industrialisation, detail manufacture and assembly of the Airbus A400M Wing-to-Fuselage fairing (WFF), fuselage Top Shells (TS) and Vertical Tail Plane Ribs, Spars and Sword (RSS) are providing DAe with long-term base load order cover.

- The manufacture and assembly of the empennage for the Gulfstream G150 aircraft.
- The manufacture and supply of winglets for a US business jet.
- Providing engineering support to other Denel entities and parts manufacture for the Rooivalk combat support helicopter programme and Seeker 400 Unmanned Aerial Vehicle design support.

## KEY HIGHLIGHTS AND ACHIEVEMENTS INCLUDE THE FOLLOWING:

- DAe has achieved and exceeded the targets of its annual budget for the fourth consecutive year with strong sales growth for the financial year ending 31 March 2014.
- Increased its sales from the 2012/13 financial year to the 2013/14 financial year with an impressive 67%.
- Doubled its 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 a satisfied customer.
- Successfully commissioned and qualified another autoclave and high speed 5 axis machine during the year under review.
- Retained its international Nadcap accreditations in nondestructive testing, composites, chemical processing and heat treatment. The entity also achieved AS9100 accreditation (Revision C).
- Performed the industrialisation of the new RSS work package.
- Initiated the manufacture of composite winglets for a reputable US business jet manufacturer. First deliveries are planned for the end of 2014.
- Down selected for a new work package on the Airbus A400M cargo hold system with substantial sales revenue contribution going forward. Industrialisation for this work package will commence during 2014.
- Experienced strong DAe bid room growth with 203 bid proposals being generated totalling R 5.3bn.
- Good progress made with transformation by having more than 90% of vacancies filled by EE candidates and more

- than 90% of all local spend being made towards B-BBEE compliant suppliers.
- Launched a mentorship programme whereby a selected group of mentees (mainly EE employees) were mentored by senior leadership within the organisation through a formal programme.
- Engaging with all stakeholders to fulfil its Government mandate to act as a catalyst for advance manufacturing of aerostructures and support the movement to a knowledgebased economy to obtain sustained economic growth and social development.
- The business opportunities based on the current SAA and SA Express aircraft acquisition processes remain the single most important factor for DAe going forward. Tight integration between Government, aircraft operators and industry remains key to optimise localisation benefits to create jobs and support economic growth.
- DAe has investigated PRASA's (Passenger Rail Agency South Africa) key strategic programmes to modernise and revamp the rail system, which includes the acquisition of a new modern rolling stock fleet to the value of R123.5bn over 20 years. Beyond the current focus of Denel (Aerospace and Defence economic sector), the PRASA strategic programmes present a key opportunity for DAe to further exert its goal of revenue growth while deepening the industrial base, developing skills, growing Tier 3 SMMEs and creating sustainable jobs. To date, DAe has submitted six rail-related proposals to Alstom.
- DAe is actively developing its local supplier base in order to secure a reliable and economically sustainable supply chain. In addition, DAe is providing work contracts to suppliers that in essence remove the international aerospace supply chain barriers to entry by providing quality assurance support, raw materials, special manufacturing processes, oversight and training.

# DAe RESTRUCTURING ROADMAP





# 2010 - WHERE WE WERE PROFITABILITY: Loss making (R328m): 2009/10 BUSINESS PLAN: No credible business plan Onerous long-term loss-making contracts **GOVERNANCE:** Serious reportable audit findings TRANSFORMATION: BBBEE Level 6 contributor Demotivated employee base COST: High fixed cost base **OPERATIONS AND REPUTATION:** Poor contract delivery track record SUPPLY CHAIN: No control over supply chain and logistics BUSINESS DEVELOPMENT AND REVENUE GROWTH: Centralised at SAAB with unconsolidated local capability STAKEHOLDER ENGAGEMENT: Focus was on operational recovery





Exceed all corporate plan targets year on year Loss position improved to (R33m): 2013/14

Renegotiated A400M contract (WFF, TS)
Exited legacy contracts (Agusta, Gripen, Hawk)
Secured profitable contracts (HondaJet, RSS, ISO Locks/CGVR)

Solvent balance sheet Maintain a clean external audit

BBBEE Level 2 contributor New appointments in 2013/14 was 91.8% ACI Excellent climate audit ratings > 80 %

Restructured employee base Consolidated new rental footprint (75000 to 25000 sqm) Implemented campus SLA's

> On- time, on- quality deliveries Improving operational efficiencies Firm foothold as a reliable supplier Meet A400M production ramp- up demand

Stock accuracy > 98%; Stock turn at 3.6 Implemented Airbus Enabled material pricing Established/developing strong local supplier base Established LTAs with suppliers

Strong bid room. Awarded the CGVRS Programme
Good internal controls
Good benchmarking
Market intelligence improving

Fully support DTI IPAP and Aerospace SDP Fully integrated into DPE SAA/SAX NIP framework











Denel Aerostructures (DAe) continues to deepen its relationships with various stakeholders within Government sectors and the local and international Aerospace industry. During the year under review, various mediums were used to position DAe as a reputable, state owned company and a global leader in the design and development of top quality aerostructures while being a catalyst for advanced aerospace manufacturing in South Africa.

Denel Aerostructures places a high value on continuous interactions with the broader stakeholder community which comprise The Shareholder representative, current and potential customers, the Research and Development community, the South African tier 3 supply chain, Aerospace Industry Associations (JASC, AMD, AISI), the dti, SAAF and other State Owned Companies within the aviation or aerospace cluster.

### **SHOWS AND EXHIBITION**

DAe has hosted and participated in various meetings, exhibitions, facility tours, business to business meetings and direct stakeholder engagements both locally and abroad. Exhibitions attended with participation include: NBAA (US); IDEF (Turkey); IDEX (UAE) and DSA (Malaysia).

### **INCOMING VISITS**

DAe hosted a number of visiting delegations, representatives from various government departments as well as prospective and future clients. This visiting delegate includes OEMs such as Alenia (Italy); Boeing (US), Airbus Military (Spain), Superjet (Russia), and other various international Tier 1 Aerostructures suppliers.

### **OUTGOING VISITS**

DAe also visits and meet with various OEMs and suppliers on a regular basis. facilities visited includes various North American and European OEMs and Tier 1 aerostructures suppliers including Spirit Aerosystems (US), GKN (UK); Alenia (Italy); Bombardier (Canada and Northern Ireland), Tawazun Precision Industries (UAE), Strata Aerospace (UAE) and CTRM AC (Malaysia).

### STAKEHOLDER ENGAGEMENT APPROACH

DAe's direct stakeholder engagements include facility visits, meetings and workshops with the Department of Public Enterprises (DPE), Department of Trade and Industry (dti), Armscor, Industrial Development Corporation (IDC), Department of Defence (DoD),

Department of Science and Technology (DST), South African Air Force (SAAF) and the CSIR.

DAe has actively participated in government-lead forums and steering committees linked to unique growth and acquisition programmes within the Aerospace and Aerostructures industry. These include DAe's membership in the Industry sub-committee of the Joint Aerospace Steering Committee (subset of the Sector Development Plan). DAe is also an active participant in the DPE-led Oversight Committee on the SAA (South African Airways) and SAX (South African Express) Fleet Acquisitions aimed at maximising the industrial benefit (National Industrial Participation) that will arise from these acquisition programmes.

# INFORMATION, COMMUNICATION AND PARTICIPATION

Internal communications and campaigns are important platforms to keep our internal stakeholders abreast with company developments and goals. Various campaigns and communication sessions took place during the past year and are discussed in more detail below.

### MY DENEL MY VALUES CAMPAIGN

The Denel Group launched the "My Denel My Values' campaign in March to increase awareness and emphasise the importance of behaving according to the Denel Values of: Performance, Integrity, Innovation Caring, and Accountability. This is done to improve to promote a shared unity of purpose and Vision. Denel Aerostructures hosted the group launch. Denel Aerostructures continues to support this campaign to ensure the group's vision of "One Denel".

### **IMBIZOS**

Denel Aerostructures (DAe) continues to conduct quarterly CEO Imbizos with success. The Imbizos serve as platform for the CEO to engage with staff on organisational performance, goals and objectives. The campaign has proved to be a success in communicating with employees on critical messages on change, diversity and focus that continuously take place in DAe and the Denel group.

### **LEKGOTLA**

The Lekgotla workshops were convened with success during the year under review. This initiative is aimed at bringing together the top leadership, organised labour and selected shop floor employees, to engage on discussions relating to strategy, key business challenges and the company's performance.

# CAMPAIGNS AIMED AT EMPLOYEE PARTICIPATION

DAe remains committed to matters of transformation, diversity and supporting national key initiatives. In an effort to increase employee awareness, the Business Development team embarked on a strategy of participative celebrations to ensure the engagement of all employees. Part of the strategy includes celebrating key milestone achievements of DAe during the 2014 financial year as well as national and international initiatives.

The following national and international initiatives were supported and celebrated:

### Women's Day

All female employees visited some of South Africa's historical sites in Soweto, Kliptown to appreciate the site where the Freedom Charter was drafted in 1955, the Hector Pieterson memorial museum to learn more about the 1976 uprisings and spent some time at a care centre in an informal settlement.

### HIV/AIDS Awareness

DAe continues to raise awareness on the HIV and AIDS pandemic. Under the theme "getting to zero infection rate" during this financial year, DAe held a voluntary testing day. The testing was accessible for all employees. A candle lighting ceremony was held to remember those that we have lost to the pandemic.

### Cancer Shavathon

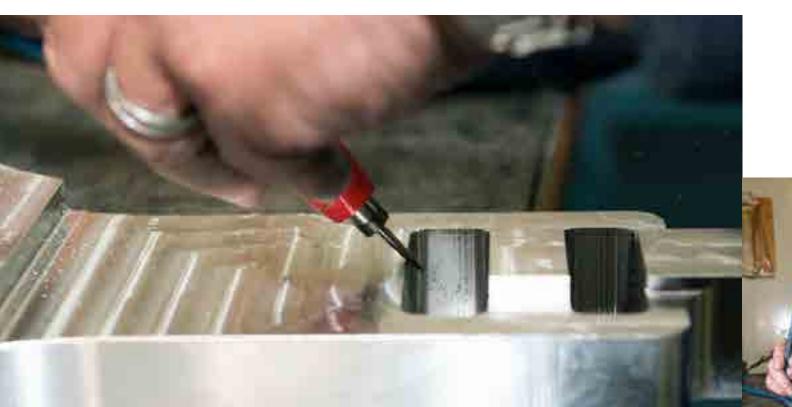
DAe supports this worthy cause by showing solidary with those living with or affected by cancer. Employees shaved off and stencilled their hair to show solidarity and messages of hope and support were written out by employees. The event was supported by all DAe employees.

### Mandela Day

The company honoured the legacy of South Africa's first democratically elected President through initiative to prepare meals for children at the Zenzele day-care centre and the donation of hygiene parcels to 100 families in the Zenzele informal settlement near Daveyton.







# EXTERNAL COMMUNICATION AND PARTICIPATION





# CORPORATE GOVERNANCE

The Board is committed to sound governance and ensures that Denel Aerostructures' business is conducted in accordance with the highest standards of corporate governance. Risk management and internal control processes have been designed in line with best practice and in compliance with King III and the Companies Act No 71 of 2008, as amended (Companies Act).

This report details certain governance principles and the main duties of the Chairman, Committees and Chief Executive Officer. The DAe Board Charter includes a schedule of matters reserved for the Board and the terms of reference which governs the DAe Audit and Risk Committee.

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

The directors and management manages the company in an efficient, accountable, transparent and ethical manner; under the auspices of its parent company, Denel SOC Ltd. This ethos is embedded in all of the company's activities and thus DAe's governance framework encompasses more than compliance and legislation. This is also confirmed with the positive feedback on our annual year-end audit process. Denel Aerostructure's Memorandum of Incorporation, aligned with the Companies Act was successfully replaced and adopted at the Annual General Meeting convened on 21 October 2013.

### RESPONSIBILITY AND ACCOUNTABILITY

The Board provides leadership and strategic oversight and oversees the control environment to achieve and sustain value to the DAe's Shareholder and stakeholders. The Board ensures adherence to principles of good governance and accountability as required in King III and its Board Charter. All of the members of the Board are individually and collectively aware of their responsibilities to the DAe's stakeholders, and each director brings experience, independence of character and sound judgement. The Board ensures regular review of its performance and core governance.

The day-to-day governance is the responsibility of DAe's management, which regularly reports to its Shareholder, the Board, and its sub-committees. The Board and the respective committee chairman 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**

DAe has a unitary Board, comprising of two executive directors, the CEO and the CFO, as well as four non-executive directors, who all meet the Board's independence criteria of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the Company.

### **APPOINTMENT AND RETIREMENT OF DIRECTORS**

In terms of DAe's Memorandum of Incorporation, the Shareholder appoints the Chairman and the directors of



the Company. The Shareholder reviews the composition of the Board on a regular basis which ensures the rotation of directors at regular intervals. The term of office for the nonexecutive directors is a period of three years. Their terms of office are subject to an annual review by the Shareholder and confirmed at the Annual General Meeting (AGM).

In appointing the non-executive directors, the Shareholder takes cognisance of DAe's needs in terms of skills, experience, diversity, size, and demographics.

# DIRECTORS' FORMALISED APPOINTMENT 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 by a letter of appointment from the Shareholder. This appointment letter indicates the non-executive Directors' terms of office, as well as information pertaining to their remuneration.

Remuneration for non-executive directors is based on the remuneration guidelines, approved by the Shareholder representative, and confirmed at the AGM. The shareholder approved a 5.0% increase for the non-executive directors at the 2013 AGM. Denel pays non-executives a fee based on their attendance of meetings.

### DIRECTORIAL INDEPENDENCE, EFFECTIVENESS, AND PERFORMANCE EVALUATION

The independence of directors is guided by the King III Report, the Companies Act and best practice. The independence of individual non-executive directors is considered at every Board meeting and formally evaluated every year by an independent consultant as part of the Board's effectiveness review on a Denel Group level.

The independence and effectiveness review of the Board members was performed by an independent firm of consultants during 2013. The evaluation report was considered at the Shareholder level in June 2013 and recommended improvements to enhance Board effectiveness were implemented.

### MANAGING CONFLICT OF INTEREST

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

# **BOARD INDUCTION AND SHARING OF INFORMATION**

New directors undergo a detailed induction to ensure a comprehensive understanding of DAe's legislative framework, governance processes, delegation of authority and business operations. Directors are continuously briefed on relevant new legislation and regulations.

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

### **BOARD MEETINGS**

In terms of DAe's Memorandum of Incorporation, the Board may meet for the dispatch of business, adjourn, postpone and otherwise regulate their meetings as it deems fit. Board meetings are convened once per quarter in a financial year and an AGM on an annual basis. All documents that are submitted to the Board for discussions are meticulously prepared by the executive team, taking into account matters arising from previous Board meetings, ensuring completeness and other relevant matters for the Board's consideration. Non-executive directors have unhindered access to the executive team members and any other employees of the Company to seek explanations and clarifications on any matter/s prior to or following a Board meeting. This facilitates the Board's discussions and assists it in reaching speedy but informed decisions.

Members of Management team attend the Board meetings as and when required, to report to the Board on their respective operational areas. The following table depicts the meetings of the Board and the attendance of each member:

### BOARD MEMBERS' ATTENDANCE FOR THE MEETINGS CONVENED DURING THE PERIOD 1 APRIL 2013 - 31 MARCH 2014:

BOARD MEMBERS ATTENDANCE FOR THE MEETINGS CONVENED DORING THE PERIOD T APRIL 201								
BOARD ATTENDANCE:	19 JUN 13	21 OCT 13	11 MAR 14	/3				
Dr G C Cruywagen (Chairman)	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
Mr I Dockrat (CEO)	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
Ms V Ravjee (Company Secretary)	А	$\sqrt{}$	$\sqrt{}$	2				
Ms B Paledi	$\sqrt{}$	$\sqrt{}$	А	2				
Mr A Carim	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
Mr F Mhlontlo	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
Ms C Slabbert	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
INVITEES								
Mr R Saloojee	А	$\sqrt{}$	$\sqrt{}$	2				
Mr T Kleynhans	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3				
Mr KC Marobela (Acting Company Secretary)	$\sqrt{}$	А	А	1				



### **COMPANY SECRETARIAL**

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

### **BOARD COMMITTEES**

The Board has established and delegated specific roles and responsibilities to the Audit and Risk Committee.

DAe reports directly to the Denel personnel, remuneration, and transformation committee, and the Denel social and ethics committee as provided for in the Companies Act.

The Audit and Risk 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's requirements, and business climate in line with best practice in corporate governance.

In terms of the Memorandum of Incorporation, the Audit and Risk Committee shall meet at least twice a year to execute its duties. Executive Management regularly attends the Board and committee meetings in line with their roles and responsibilities.

The minutes of the committee meetings are included in the Board meeting pack for information to keep the Board abreast of the activities of the committees. Significant matters discussed at these committee meetings are communicated to the Board by the Chairman of the Audit and Risk Committee.

<sup>+</sup> Terminations, - Appointments, A Apology

### **AUDIT AND RISK COMMITTEE**

Membership of the Audit and Risk Committee, including its chairman, comprises of non-executive directors, and the executive directors are standing invitees in committee meetings. All members of the committee have considerable financial and risk management experience necessary to oversee and guide the requirements set by the Audit and Risk Committee terms of reference. These include the audit and risk functions, the governance of risk and IT risk as recommended by King III. The appointment of members of the Audit and Risk Committee are reconsidered and voted on at every AGM.

The committee's terms of reference are reviewed and updated for relevant new legislation and best practice. The terms of reference include the committee's mandate which is to ensure the integrity of financial reporting, the adequacy of governance, soundness of the internal control environment and the robustness of risk management processes. The roles and responsibilities of the committee are detailed in the report of the Audit and Risk Committee on page 90 and include the following:

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

The committee chairman meets regularly with the external auditors, to consider the audit plans, the scope and status of the audits and progress on resolving significant issues. This is a function that takes place on a Denel Group level.

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 AUDIT COMMITTEE HELD THREE MEETINGS DURING THE FINANCIAL YEAR AS DETAILED BELOW:

### ATTENDANCE AT AUDIT AND RISK COMMITTEE MEETINGS

MEMBERS	10 JUN 13	21 OCT 13	11 MAR 14	/3
Mr F Mhlontlo (Chairman)	$\checkmark$	$\sqrt{}$	$\sqrt{}$	3
Mr T Zwelibanzi	$\checkmark$	$\sqrt{}$	А	2
Mr A Carim	А	$\sqrt{}$	$\sqrt{}$	2
Ms V Ravjee (Company Secretary)	$\checkmark$	$\sqrt{}$	$\sqrt{}$	3
AUDITORS				
INTERNAL (DELOITTE)				
Ms I Gray	$\checkmark$	$\sqrt{}$	$\sqrt{}$	3
Ms S Tekwane	$\checkmark$	$\sqrt{}$	$\sqrt{}$	3
EXTERNAL (SNG)				
Mr D Govender	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3
Mr S Moyo	$\sqrt{}$	$\checkmark$	$\checkmark$	3
STANDING INVITEES				
Mr I Dockrat (CEO)	А	$\checkmark$	$\checkmark$	2
Mr T Kleynhans	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3
Ms C Slabbert	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3
Mr A J R Calitz	$\sqrt{}$	$\sqrt{}$	$\sqrt{}$	3
Ms L Viviers	$\sqrt{}$	А	А	1
Mr J Manzini	$\checkmark$	$\checkmark$	$\checkmark$	3



<sup>-</sup> Appointments A Apology



### **RISK MANAGEMENT**

The company has a sound system of internal controls, designed in terms of policies and guidelines. The Board reviews and improves the risk strategy and policies formulated by the executive directors and senior management. Management is accountable to the Board and has established a system of internal controls to manage the significant risks. This system assists the Board in discharging its responsibilities to ensure effective management of the risks associated with DAe's operations.

Further details on the effectiveness of risk governance can be found under the risk governance section of this report.

### **CODE OF ETHICS**

Denel Aerostructures has a code of ethics adopted from its parent company, Denel, which underpins the business practices to which all employees and suppliers are expected to adhere to. The policy outlines conflicts of interest, the prevention of dissemination of Company information, the acceptance of donations and gifts, and protection of the intellectual property and patent rights of the Company. The policy outlines the disciplinary action (including dismissal or prosecution) that will be taken in the event of any contravention.

DAe also has an independently operated whistle-blowing mechanism. This is a fraud hotline operated by an independent organisation. Matters that have been reported through this mechanism are investigated and reported to the Audit and Risk Committee. Based on the nature of allegations, some of the matters are reported to appropriate law enforcement agencies, such as the SAPS.

### **INTERNAL CONTROL**

The Board oversees the system of internal control within Denel Aerostructures, whereas the implementation and functioning of these systems rests with the executive management team. The Audit and Risk Committee is presented with a formal review of the effectiveness of the Company'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 DAe's systems of internal control. This function has been outsourced to Deloitte.

The internal auditors report administratively to the CEO and Group CEO and have unrestricted access to the chairman of DAe, the Group Audit and Risk Committee and to the chairmen of the Denel and DAe Board of Directors. Given that the internal auditors have unrestricted access to Board members and regularly report to the Audit and Risk Committee, the Board is confident that the internal auditors have discharged their duties fully and independently in terms of the internal audit charter.







Global and local events such as fiscal and political trends, currency movements, technology advancements and regulatory changes affect business competitiveness and sustainability. These create uncertainties as the organisation is busy creating and preserving value. Good corporate governance requires the organisation, to put in place a process to ensure that risks and opportunities arising from the environment are effectively responded to manage and strike a balance between growth, return and risks. Denel Aerostructures has infused risk management in the business culture and embedded it in the strategic and operational planning processes. Effective governance of risk has enabled the organisation, among other things, to deploy resources and pursue its objectives whilst setting the tone for stewardship and ethical business conduct.

### **RISK GOVERNANCE PROCESS**

Denel Aerostructures' enterprise-wide risk management process is based on the Committee of Sponsoring Organisations (COSO) framework and ensures a coordinated risk management approach throughout the company. The process entails continuous identification, evaluation, mitigation and monitoring of risk, based on robust intelligence gathering processes and structures. The risk assessment process is based on identifying inherent risk, assessing exposure prior to implementing controls and assessing residual risk post implementation of the control measure. Denel Aerostructures comprises of a number of divisions and adopts a combination of a top-down and bottom-up approach to risk assessment using divisional and corporate inputs.

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

The executive management is guided by the delegation of authority as it implements systems of risk management. Denel Aerostructures has put in place a system of internal control, which includes financial and operational processes to manage and monitor risk. This ensures risk management at the appropriate levels of management throughout the company. The company dedicates time at least twice a year to assess the internal control environment and attend to specific risk issues. Annually the executive management undertakes a rigorous strategic planning process which includes the identification of risks and opportunities and assigns responsibilities for mitigation, reporting and monitoring of risks and report to the audit and risk committee. The risk profile includes financial, programme management, safety management and other risks.

Financial risk management is governed by the Corporate Treasury policy and procedures manual approved by the Denel Board. This includes centrally managed cash resources, counterparty risk and utilises various financial instruments to hedge against interest and exchange rate risk

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

Denel Aerostructures has adopted internationally recognised management systems, ISO9001, ISO14001 and OHSAS 18001 on which workplace and product safety processes are based, as well as accredited processes and systems some of which are prescribed by customers. An update on OHS is provided in the relevant sections of this sustainability report.

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	MITIGATING ACTIONS
COMPLEXITIES OF PROGRAMMES	<ul> <li>Project management</li> <li>Supply chain processes</li> <li>Human resources</li> <li>Industrialisation</li> <li>Suppliers</li> </ul>	<ul> <li>Program slippages</li> <li>Penalties</li> <li>Reputational damage</li> <li>Loss of customer confidence</li> </ul>	<ul><li>Customers</li><li>Employees</li><li>Subcontractors</li></ul>	<ul> <li>Additional skills development</li> <li>Improve manufacturing processes</li> <li>Design improvement opportunities</li> </ul>	<ul> <li>Implementation of disaster recovery plan</li> <li>Improve supply chain management processes</li> <li>Focus on customer interface</li> <li>Ensure robust quality assurance</li> <li>Improve SLA's with suppliers</li> <li>Strategic investment consideration</li> </ul>
TIMEOUS PLACEMENT OF ORDERS	Alignment of orders to capacity     Robust master production     schedule	<ul> <li>Not achieving ramp-up</li> <li>Late deliveries</li> <li>Inefficiency of resources</li> <li>Increased cost</li> <li>Not meeting operational and financial targets</li> </ul>	<ul><li>Customers</li><li>Material suppliers</li><li>Employees</li></ul>	<ul> <li>Customer relation</li> <li>Accurate MPS / MRP system</li> <li>Supply chain efficiencies</li> </ul>	<ul> <li>Established integrated project teams</li> <li>Implement base line change control</li> <li>Implement first time pass tools to prioritize and initiate focus and structure on problem areas.</li> </ul>
CHANGING TECHNOLOGY	<ul> <li>Customer requirements</li> <li>Research and Development</li> <li>New technology</li> </ul>	<ul> <li>Product offering</li> <li>Inefficient machinery</li> <li>Investment required</li> <li>Old technologies</li> </ul>	<ul><li>Customers</li><li>Lenders</li><li>Research Institutions</li></ul>	<ul> <li>New technologies</li> <li>New machinery</li> <li>New processes</li> <li>New skills set</li> </ul>	<ul> <li>Industrialisation / engineering teams to review improvement opportunities</li> <li>Focus on effective change management</li> <li>Evaluate new technologies such as out of autoclave processing, enhanced inspection technology</li> <li>Design to build packages</li> </ul>
HUMAN RESOURCES	<ul> <li>Talent acquisition and management</li> <li>Learning and development</li> <li>Employee relations</li> <li>Transformation</li> </ul>	<ul> <li>Skills attrition</li> <li>Employment Equity</li> <li>Ageing workforce in some departments</li> </ul>	<ul><li>Employees</li><li>Organised labour</li><li>Shareholders</li></ul>	Improve current skills base of employees     Incubation programmes     Middle-management transformation within Engineering	<ul> <li>Professional positions to address the transformation shortcomings at both middle-management and engineering levels</li> <li>Furthering National Transformation Agenda</li> </ul>
LEGAL AND REGULATORY COMPLIANCE	<ul><li>Compliance</li><li>Clean audits</li><li>Licence compliance</li></ul>	<ul> <li>Reputational damage</li> <li>Loss of approvals / licences</li> <li>Penalties</li> </ul>	<ul><li>Regulators</li><li>Shareholders</li><li>Customers</li></ul>	<ul> <li>Improve business processes</li> <li>Compliance to regulatory authorities</li> <li>Maintain all certifications and accreditations</li> </ul>	<ul> <li>Developing company values and ethical culture and awareness</li> <li>Security awareness training</li> <li>Legal compliance audits</li> <li>Comply with all regulatory authority requirements for Quality Management System.</li> </ul>







### FRAUD AND CORRUPTION RISK

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

Denel Aerostructures communicates its stance against fraud and corruption to its employees and business partners. The Board Social and Ethics Committee plays a critical role in establishing acceptable business conduct, custodianship for positive organisational values and overseeing anti-corruption mechanisms in Denel Aerostructures.

### FRAUD AND CORRUPTION AWARENESS

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

### **DETECTION OF FRAUD AND CORRUPTION**

Denel Aerostructures has put in place a continuous control monitoring (CCM) system, which analyses transactions and points out data discrepancies in the procurement and pay environment which are susceptible to fraud and corruption. The CCM process assists management to identify discrepancies and take corrective action.

Management continuously interrogates financial, HR, procurement and inventory information to detect instances of fraud and corruption as part of the day-to-day control activities and reports to the audit and risk committee, In addition to the CCM process which is administered by internal audit, audits were conducted by external audit regarding potential conflict of interest and, where appropriate, action was taken. However both processes found no evidence of fraud and corruption.

### WHISTLE-BLOWING

Denel has a confidential hotline through which fraudulent and unethical behaviour may be reported. To report incidents of fraud and corruption employees and stakeholders call 0800 20 4880. The hotline is independently operated and



all stakeholders are encouraged to make use of it. However, despite high awareness regarding the hotline and the whistle-blower's policy the number of hotline reports has been declining. It is comforting to note that the CCM process, diligent management assessments as well as the supply chain-related assessments conducted by the external auditor as required by the Auditor General, complement fraud detection. None of the eight cases of alleged unethical behaviour reported and assessed was found to be fraud-related.

Denel will continue promoting anti-fraud awareness among employees and stakeholders.

### LEGAL AND REGULATORY FRAMEWORK

Denel considers compliance with laws and regulations an imperative requirement for conducting business, especially in the defence industry. Denel's operational activities of

aviation, conventional arms development and manufacturing, are governed by various laws including the conventional arms control, non-proliferation of weapons of mass destruction, explosives, firearms control, occupational health and safety legislation and environmental management legislation. Denel has put systems in place to ensure that its operations comply with the legislation. The compliance system entails continuous identification and monitoring of laws and regulations impacting the business, updating policies and appointment of responsible persons for ensuring compliance. Executive management are accountable to the board for legal and regulatory compliance.

Defence products involve controlled items which are subject to export regulations in terms of the National Conventional Arms Control Act (NCACA). The NCACA is at the centre of the compliance programme to ensure that development, manufacturing and servicing permits, as well as marketing,

contracting, import and export permits are obtained as required. These permits include temporal permits and are issued at the discretion of, and after following a stringent evaluation process by, the National Conventional Arms Control Committee (NCACC) established in terms of the Act of Parliament. We believe that the new regulations will facilitate compliance. Denel is updating its compliance programme to meet the criteria set out in the said regulations. During the year under review, arms control compliance staff received awareness training on the new NCACA regulations.

Health, safety, environmental and quality management, as well as OEM accreditation systems are implemented as part of the compliance programme. More detail on health, safety, environmental and accreditations is given in the sustainability report on page 82.





# SOURCING AND SUPPLY

### **OVERVIEW**

The DAe supply chain function focuses its efforts to achieve the following strategic goals:

- Developing sourcing and supply policies and procedures, through implementation of multi-disciplinary procurement committees complying to formal delegation and in line with PFMA and PPPFA legislation.
- Committed to support and development of local suppliers, with specific focus on emerging B-BBEE and SMME companies in order to contribute to national developmentand transformation goals.
- The sourcing and supply chain strategy is to reduce the total cost of ownership, improve service delivery and overall improve customer satisfaction whilst complying with relevant legislation.

- Ensuring effective performance contracting with clear links to DAe's performance metrics and relevant KPI's to enhance internal as well as group-wide supply chain performance.
- Implementing supplier management methodologies and tools to enhance and monitor supply effectively.

DAe is committed to enhance preferential procurement and support supplier development with specific emphasis on designated exempt micro enterprises (EMEs), small, medium and micro enterprises (SMMEs) and B-BBEE suppliers in establishing long-term business partnerships and to enhance its standing as a proudly South African company.

Selected supply of machining, sheet metal manufacturing and chemical purchasing (including chemical stock holding) are being outsourced locally as part of the enterprise development drive. DAe contributes to develop these suppliers to specific OEM approved standards and cultivates an advanced manufacturing environment where allowed by OEM contractual requirements.

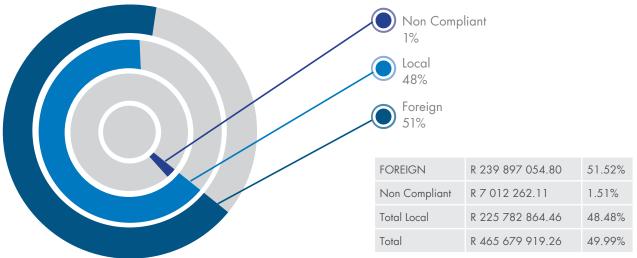
The following aspects were addressed to develop these suppliers:

- DAe develops the market and secure orders from which local suppliers are contracted.
- Forecasting and capacity planning with on-time delivery monitoring.
- Improving quality standards, in terms of a first time pass rate.
- Improving the local supplier capability to perform in a global market including:



- Assistance in industrialisation in terms of process development and tool design.
- Supply of metallic raw material at no cost.
- Provide financial training.
- Quality audits and continuous improvement plans.
- Availability of the DAe special process and treatment facilities.

The focus of preferential procurement is to increase expenditure on black-owned, black women-owned and black youth-owned businesses. The enterprise and supplier development action plan is to improve these businesses in order to participate not only in the South African market, but also in the global industry.



Total spend YTD April 2013 - March 2014



### **INTRODUCTION**

Denel Aerostructures (DAe) has developed Human Resources strategies intended to ensure that the company's business objectives are achieved. The focus was to grow the head count only in cases where additional business has been obtained and to maintain and improve the current skills force.

Strong leadership and communication has been the cornerstone of ensuring that employees remain focused and deliver excellent results.

Learning and development has been a key focus area, with specific emphasis on the continuation of the apprenticeship programme. DAe has embarked upon numerous Corporate Social Investment initiatives to improve its corporate identity. These programmes have been hugely successful due to extensive participation by employees.

DAe is committed to an open, honest and productive relationship with the shareholder, employees, labour unions and other stakeholders and has ensured that this partnership remained exceptional through extensive engagement.

The launch of the Denel values within the group took place on the Kempton Park Campus and the values of "performance, initiative, integrity, caring and accountability" are the cornerstone of behaviour of all employees within DAe.

Priority areas for the year were:

- Employee well-being;
- Skills Development;
- Transformation.

### 1. EMPLOYEE WELL-BEING

### 1.1 EMPLOYEE WELL-BEING PROGRAMME

The DAe wellness programme is provided by an external source named ICAS. These services are available to employees 24 hours a day, 365 days a year. Employees also have access to professional counselling if required. This service also allows managers to refer employees who are experiencing difficulties in their personal or work life for counselling. Information is provided to employees regarding health and social related topics via pamphlets; e-mails and its website, which includes aspects such as financial advice, relationships, work trauma, health issues, family matters, legal issues, stress, debt and substance abuse.

### 1.2 WELLNESS DAYS

Wellness days are held and employees have the opportunity to be screened for hypertension, high cholesterol, diabetes and HIV. DAe participates in various health-related awareness campaigns, such as the Cancer Shavathon, World Aids Day etc. During the year under review DAe participated in "Movember" during November to create awareness regarding the danger of prostrate and testicular cancer.

1.3 PROGRAMMES IN SUPPORT OF HIV/AIDS AWARENESS HIV/AIDS awareness sessions are held regularly. Posters and banners are displayed during the national HIV/AIDS awareness week and condoms are made available in the ablution facilities. During wellness days employees are offered HIV tests. On World Aids Day, employees marched through the facility carrying red balloons in support of people living with HIV/AIDS.

### 1.4 MEDICAL AID AND RETIREMENT FUND

Compulsory membership to both the medical aid and retirement funds are part of the terms and conditions of employment. This ensures that employee's health care and retirement funding requirements are addressed.

### 1.5 POSITIVE EMPLOYEE RELATIONS

DAe's relationship with labour unions remains stable and positive. All consultations and negotiations are completed timeously and disputes remain minimal. Recognition agreements are in place with three labour unions namely: Solidarity, Numsa and UASA.







#### PROFILE OF UNIONS REPRESENTED IN DAE:

UNION	2014	2014	2013	2013	2012	2012
	No.	%	No.	%	No.	%
Solidarity	102	24.3	103	26.2	110	28.9
Numsa	77	18.4	70	17.8	66	17.3
UASA	64	15.3	63	16	66	17.3
TOTAL	243	58	236	60	242	63.5
total Workforce	419	419	393	393	381	381



#### 2. DEVELOPMENT

#### 2.1 EMPLOYEE SKILLS DEVELOPMENT INITIATIVES

DAe understands the intrinsic link between skills development and long term business sustainability. To a large extent this industry requires unique technical skills that are largely not available in the market. DAe's objective is to develop all employees to their full potential and encourages all employees to take learning and development as a personal responsibility. This way, we will impact positively on the development of skills for the country. The Skills Development focus is very diverse and includes regulatory training (Safety, Quality, customer specifications etc.), various developmental training as identified and on-the-job training. DAe also identified diversity training as part of its strategic objectives, and completed training in all operational areas to date. The support areas will receive this training in the new financial year (2014/2015). DAe has spent about R3.5m on skills development and learning programmes for the current financial year.

#### 2.2 SCHOOL OUTREACH PROGRAMMES

Initiatives are taken to promote aviation and engineering careers and to improve the quality of life in targeted communities. Schools targeted during the last year during air shows were Mamelodi High and two high schools from Dunottar and

Newcastle. Oliver's House in the Zenzele Community was the beneficiary for the DAe project on Mandela Day.

#### 2.3 WOMEN IN ENGINEERING & TECHNO GIRL

A further initiative to promote aviation and engineering careers amongst females is to bring learners to the work place to expose them to the working environment. A total number of 60 learners from Reiger Park High and Etwatwa High were hosted by DAe on the Kempton Park campus.

### 2.4 LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

The UNISA SBL Denel Leadership and Management Development programmes were launched in June 2011, as part of yet another method of closing leadership gaps. There are three programmes designed to cover the junior, senior and executive levels within the organisation. Leaders and employees with leadership potential at various levels in the company are participating in this programme. Currently four high potential employees participate in the Denel Management programme, one employee on the Denel Senior Management Programme and one employee on the Denel Executive Leadership programme. The current programme is anticipated to be completed in June 2014. We strongly believe in continuous professional development to encourage life-long learning and to encourage a learning culture within the organisation.

#### 2.5 SUCCESSION PLANNING

DAe developed a succession planning framework (known as the Talent Optimisation Programme), which assists with the identification of talent and provides a pool of candidates as possible successors for both leadership and technical roles. Various programmes are implemented depending on the career path selected. The framework is also aligned to the transformation targets of the company. Identified potential successors are put through various developmental programmes to address any learning requirements.

#### 2.6 MENTORING

DAe embarked on a formal and structured mentoring programme. The programme duration is 12 months and consists of four phases, namely:

- Planning and Preparation;
- Program Commencement (launch) and Training;
- Programme Management & Implementation;
- Programme Close Out and Evaluation.

The programme goals include scarce and critical skills transfer, leadership and management development, supporting high potential employees (mentees) and embedding global best practice mentoring skills across the board for mentors. A total number of 10 mentees and 10 mentors participate on the programme.



#### 2.7 EMPLOYEE STUDY BURSARIES

DAe continues to grant sponsored studies to employees who wish to further their studies in related fields and to enhance performance in their jobs. Bursaries are provided in addition to the various training courses that have been identified as part of their personal development plans.

DAe are currently sponsoring 29 employees with further studies E.g. various engineering studies, business, quality & production Management. The expenditure in this financial year on employee bursaries was R200 000.

#### 2.8 ARTISAN TRAINING

The Artisan training covers a wide spectrum of skills and aircraft-related disciplines including aircraft composites, aircraft structural work, aircraft spray painting, fitting and turning, machine tool millwright, tool and jig and turner machinist.

DAe is currently sponsoring 24 apprentices in the various trades as mentioned above—which will impact positively on the South African economy by providing highly sought-after artisans for the industry. The investment for this financial year was almost R1-million. DAe can continue to train artisans to make a meaningful contribution to air safety and raising the levels of skills in the industry with additional funding. The Adult Artisan Training Programme assists operators to successfully complete a trade test and become qualified artisans. Currently 15 operators participate in the programme.

#### 3. TRANSFORMATION

#### 3.1 OVERVIEW

DAe has been implementing various transformation initiatives since 2007. DAe has achieved a level 2 B-BBEE compliance score. Two flagship programmes are being implemented namely:

- 1. Compliance with the B-BBEE Codes of Good Practice; and
- 2. Climate Improvement Programmes.
- 3.2 MONITORING OF TRANSFORMATION PERFORMANCE DAe believes in genuine business transformation that is sustainable and adds value to the employees, the company and the community at large. This is portrayed by the following initiatives below:
- External monitoring of transformation implementation occurs twice a year. A mid-year assessment is conducted by the Group Transformation Manager and a final assessment is conducted by two independent auditors at year end.
- Compliance with the Employment Equity Act occurs through annual submission of Employment Equity reports to the Department of Labour.
- DAe has an appointed transformation champion who manages implementation of transformation within the company.
- The Transformation committee is chaired by the CEO and the meeting takes place at least four times per annum. The role of the committee is to discuss targets, progress and strategies to meet the plans. The committee comprises of union representatives, entity transformation champions, HR practitioners and nominated employees to represent non-unionised employees. Line management responsible for the various elements of the B-BBEE codes also attend the committee meetings. This process of managing transformation ensures active involvement by all stakeholders.



JOB CATEGORIES	2014 B*	2014 W**	2013 B*	2013 W**	2012 B*	2012 W**
Senior Management/Executive Managers	3	4	2	4	1	4
Management	4	18	6	18	4	17
Engineers	9	21	8	28	7	24
Technical (technicians & artisan)	140	136	115	138	110	147
Configuration	0	2	0	2	0	2
Financial	3	7	2	9	2	9
Marketing	4		1	0	0	1
Administrative	20	14	21	16	20	17
Trainees	25	0	19	1	10	3
General Workers	3	0	2	0	2	0
Sub total	211	207	176	217	156	225
Total	418	418	393	393	381	381

<sup>\*</sup>B - Black refers to African, Coloured and Indian /\*\*W - White





#### 3.4 APPOINTMENTS

JOB CATEGORIES	2014 B*	2014 W**	2013 B*	2013 W**	2012 B*	2012 W**
Senior Management/Executive Managers	3	4	2	4	1	4
Management	4	18	6	18	4	17
Engineers	9	21	8	28	7	24
Technical (technicians & artisan)	140	136	115	138	110	147
Configuration	0	2	0	2	0	2
П	0	0	0	1	0	1
Financial	3	7	2	9	2	9
Marketing	4		1	0	0	1
Administrative	20	14	21	16	20	17
Trainees	25	0	19	1	10	3
General Workers	3	0	2	0	2	0
Sub total	211	207	176	217	156	225
Total	418	418	393	393	381	381

<sup>\*</sup>B - Black refers to African, Coloured and Indian, \*\*W - White

#### 3.4 APPOINTMENTS

CATEGORY	2014 No.	<b>2014</b> %	2013 No.	<b>2013</b> %	2012 No.	<b>2012</b> %
Black Male*	32	65.3	30	62.5	6	25
Black Female*	13	26.5	7	14.6	4	16.7
White Male	3	6.1	8	16.6	12	50
White Female	1	2	3	6.3	2	8.3
TOTAL	49	100	48	100	24	100
ACI Appointments	45	92%	37	77%	10	42%

The table below illustrates appointments by race and gender:

The following Executive Management positions have been filled with Black candidates internally during the year:

- Executive Manager Programmes
- Executive Manager Business Development

#### 3.5 TERMINATIONS

The table below illustrates terminations by race and gender:

CATEGORY	2014 No.	<b>2014</b> %	2013 No.	<b>2013</b> %	2012 No.	2012 %
Black Male*	8	32	15	40.5	53	52.5
Black Female*	3	12	3	8.1	15	14.9
White Male	11	44	16	43.3	31	30.7
White Female	3	12	3	8.1	2	2
TOTAL	25	100	37	100	101	100
ACI Termina- tions	11	44%	18	51%	68	67%

\* Black refers to African, Coloured and Indian

#### 3.6 B-BBEE

This is the fourth year that DAe has been evaluated by an external agent on B-BBEE. The company's target is to maintain an overall level 3 contributor status for 2013/14.

DAe has improved its overall B-BBEE scorecard from 49.14% in 2010 to an estimated 80% in 2014. This score makes DAe a 110% contributor and adds value to suppliers.

#### 3.7 IMPROVING ORGANISATIONAL CLIMATE

The entity's climate improvement plans are evaluated for performance annually by an independent consulting firm. The overall score for this reporting period is 85%, an improvement on the previous year's 78%. The table below illustrates the performance indicators designed by the company to track its progress:

RATING	SCORE	TRANSFOR- MATION STATUS	DESCRIPTION
5	100%	Transformed	This level shows exceptional achievement of targets in the transformation plan of an entity that is far beyond expectation. Transformation has become embedded in the entity's culture and practices.
4.0 – 4.99	80% - 99%	Sustaining transformation	This level indicates that an entity has achieved over and above its planned initiatives, meaning the entity is moving beyond contracted targets
3.0 – 3.99	60% - 79%	Transforming	This level shows that the entity has achieved its planned transformation initiatives and in so doing is regarded as a "transforming" organisation.
0.0 – 2.99	0 % - 59%	Inadequate transformation	This level indicates that the entity has not achieved and/or implemented the transformation initiatives as planned

<sup>\*</sup>Black refers to African, Coloured and Indian





Denel Aerostructures' Corporate Social Investment (CSI) is aimed at facilitating and creating platforms to contribute to community-building by delivering on the Denel Group's mandate towards social upliftmentand building a sustainable economy.

Denel Aerostructures CSI projects are aimed at addressing social and economic disparities and responding to government's developmental priorities within the communities that we operate in. Programmes are implemented within the following focus areas – education; entrepreneurship as well as community development. Below is breakdown of the key initiatives:

#### **SCHOOLS OUTREACH PROGRAMME**

Denel Aerostructures is involved in youth development through the schools outreach programme. This initiative aims to promote careers in Aerospace amongst leaners from previously disadvantaged communities. During this financial year, Denel Aerostructures hosted career days at the Swartkops Airshow, Rand Airshow and the Newcastle Airshow.

Over a 1000 learners from nearby communities attended these events where they had the opportunity to experience a showcase of our products and services, as well as a career talk by our female engineers. Through this type of outreach, Denel Aerostructures hopes to instil a passion in our youth for the aerospace industry.

#### **SUPPORTING EDUCATION**

Denel Aerostructures is involved in the upgrading of mathematics and science performance results in the country. Denel Aerostructures in partnership with the Rafedile academy in Springs offers extra maths and science lessons to leaners from the Etwatwa high school on Saturdays and over school holidays. Over a 100 leaners in grades 10, 11 and 12 are benefiting from this programme.

#### TAKE A GIRL CHILD TO WORK

Denel Aerostructures holds high the value of exposing young female South Africans to the various career opportunities within the Aerospace and Aerostructures industries. During the 2013 financial year, Denel Aerostructures hosted 65 girl leaners from Etwatwa High School and Reiger Park





Technical. These included children of DAe employees. This initiative also included leaners from "come back mission" a centre for women in Eldorado Park that aims to safeguard young female from early pregnancy and drug abuse in the area.

#### **SAAF BENEVOLENT FUND**

As a caring partner in the Defence and Aerospace industry, Denel Aerostructures provide financial support to the Chief of Air Force benevolent fund on an annual basis. The fund provides financial and practical support to soldiers, former soldiers, and their families in times of need.

#### **MANDELA DAY**

Annually, Denel Aerostructures commemorate this day to honour the legacy of the late Nelson Mandela, the former South African President, and his values, through volunteering and community service.

During this financial year Denel Aerostructures, in full participation with our employees, took time

off to prepare a hearty meal for two hundred children at the Zenzele day-care centre and also donated hygiene parcels to over one hundred families in Zenzele, a needy informal settlement near Daveyton.

#### **ENTERPRISE DEVELOPMENT**

At Denel Aerostructures, we believe that supporting entrepreneurs and small/medium businesses, plays a major role in building and ensuring a sustainable economy for our country. Denel Aerostructures focus of preferential procurement is to increase expenditure on black-owned, black women-owned and black youth-owned businesses. Our enterprise and supplier development action plan is to improve black owned businesses in order to participate not only in the South African market, but also in the global industry.

DAe as a Tier one industry operator prides itself as an advanced manufacturing catalyst in supporting and training local suppliers to meet international standards in an economically sustainable manner.





#### **OVERVIEW**

Denel Aerostructures subscribes to the principles of corporate citizenship which observes human rights including the right to a safe work environment. These principles are manifested in Denel's values that acknowledge that its employees are the drivers of its mission to advance the vision and expectations of the stakeholders. Therefore, a more comprehensive approach to occupational health and safety that helps preserve the well-being of employees is essential for the company's success. Denel's objective is to ensure a safe work environment through engineering measures to eliminate hazards, safe work procedures, providing protective clothing, monitoring of occupational diseases as well as creating a culture of safety consciousness based on continuous safety risk assessment. Denel Aerostructures is in the process of implementing management system OHSAS 18001 certified by the SABS this year.

Acknowledging the hazardous nature of the work environment especially those relating to the determining activities in conflict areas Denel has adopted more integrative and risk based safety and security measures to minimise safety risk exposures to employees as far as practicable.

## OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Responsibility for a safe work environment rests with the DAe CEO and through legal appointments and communication of their responsibilities a culture of accountability for work place safety is instilled at all levels of the organisation. Furthermore safety performance is measured against a group Lost Time Injury Frequency Rate (LTIFR) target of less than one and DAe achieved 0.34 and 0.05 during 2012/13 and 2013/14 respectively. It is comforting to note that no fatal accidents were experienced during 2013/14.

A number of programmes and procedures have contributed significantly to the safety record of the organisation. This includes identification and conducting safety job analysis and providing written safe work instructions for high risk jobs and providing effective supervision to ensure compliance. Visible signage en-

sured employees are continuously aware of hazards and also served as a reminder for PPE requirements. Employees in high risk occupations such as hazardous chemicals receive refresher courses and provided with the appropriate personal protective clothing (PPE) and Material Safety Data (MSD) sheets and are stringently supervised for safety reasons. Safety Health and Environmental Committees as well as general safety awareness are critical ingredients of DAe's safety programme.

#### **OCCUPATIONAL HYGIENE SURVEYS**

DAe conducts occupational hygiene surveys to identify environmental stressors including illumination, noise, ventilation, Hazardous Chemical Substances (HCS), as well as ergonomics were conducted in order to mitigate exposure and comply with applicable legislation. During the year illumination, noise, ventilation, HCS, tests as well as ergonomics were conducted and corrective measures have been taken where necessary.

#### **OCCUPATIONAL MEDICINE**

Pre-employment, periodic and exit medical examinations are conducted in Denel Properties Kempton Park Campus occupational health centre, operated by qualified occupational medical practitioners.

Pre-employment, periodic and exit medical examination procedures were performed on 344 employees and two employees were redeployed as a result of high cyanide levels that have now returned to "acceptable."



DENEL HAS ADOPTED MORE
INTEGRATIVE AND RISK
BASED SAFETY AND SECURITY
MEASURES TO MINIMISE
SAFETY RISK EXPOSURES
TO EMPLOYEES AS FAR AS
PRACTICABLE.



PROCEDURE	YEAR	DAE
Pre-exit medicals	2014	24
	2013	147
Periodic medical	2014	260
	2013	166
Pre-Employment	2014	60
	2013	-
Hearing tests	2014	
	2013	327
Laser eye testing	2014	
	2013	147



#### **OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS**

Training of employees in specific occupations in areas such as incident investigations, safety risk assessment, high-risk occupations such as hazardous chemical substances handling, fire-fighting to promote safe work practices and general responsibilities of safety representatives and supervisors to promote safety awareness contributed to the good safety record during the year. There has also been a focus on the sub-contractors' safety. The numbers of employees that received safety training and safety awareness are 174 of the complement of 418.

TRAINING TYPE		
OFFERED	DAe	DAe
Year	2014	2013
OHS induction		26
HCS		2
Spill kit	8	-
OHS Representatives		6
Hazard and Risk assess- ments	5	-
First aiders		21
Fire fighters	74	-
Crane and forklift operators	87	41
Total employees trained	174	109
Staff Complement	43	30





#### **OVERVIEW**

Denel Aerostructures (DAe) is committed to creating a healthy and safe working environment, preventing pollution, conducting business in an environmentally sound manner, striving to minimise potentially adverse impacts, enhancing impacts with positive potential, producing and supplying products which conform to customer specifications and expectations. The objective is to optimise the utilisation of raw materials and energy sources, eliminate, reduce and recycle waste where possible and to minimise impacts on the environment and the community in which it operates. In meeting the above objectives DAe strives to comply with all applicable legislation and corporate requirements.

#### **ENVIRONMENTAL POLICY AND MANAGEMENT SYSTEM**

Denel Aerostructures complies with all applicable laws and legislation, including, Ekurhuleni Municipality by-laws, National Environmental Management Act and the OSH Act.

The company's commitment to environmental sustainability is embodied in its safety, health and environmental policy.

These policies outline a range of precautionary principles that guide our operational planning and management.

#### **EMPLOYEE TRAINING AND AWARENESS**

 Employees are trained on safe work procedures regarding the use, handling, storage and labelling of the HCS and procedures to be followed in the event of spillages, leakages or any similar emergency situation which could take place by accident.

#### **WASTE PRACTICES AND RECYCLING**

- 100% of aluminium waste generated from the manufacturing process is recycled.
- Domestic waste is collected and disposed of by the approved environmental specialist in collaboration with Denel Industrial Properties.
- Hazardous waste is safely disposed by Enviroserve. See details below

### ENVIRONMENTAL MANAGEMENT SYSTEMS AND ISO14000 AND OHSAS 18001 CERTIFICATES

- Denel Aerostructures is in a process of aligning its procedure with the international standards to ensure compliance to customer requirements.
- Denel Aerostructures is implementing ISO14000 and OHSAS 18001 and being audited by SABS and other external auditors.

#### WEIGHT OF WASTE, BY TYPE AND DISPOSAL METHOD

DESCRIPTION OF WASTE DISPOSED OR RECYCLED	HAZARDOUS (H) / GENERAL (G) WASTE	WEIGHT OR VOLUME OF WASTE CURRENT YEAR	WEIGHT OR VOLUME OF WASTE PRIOR YEAR	TARGET WEIGHT OF WASTE CURRENT YEAR	TARGET WEIGHT OF WASTE PRIOR YEAR	DISPOSAL/ RECYCLING METHOD AND COMMENTS	CERTIFICATION OF SAFE DISPOSAL OBTAINED
Aluminium	G	253 tons				Sold to Recycler	NA
Copper Cyniade	Н	49 m3				Enviroserve	Yes
Effluent Water	G	41000 kl				Sewer	Yes
Caustic and Chromic acid	Н	61 m3				Enviroserve	Yes
Empty tins of Paint.	Н	11 m3				Enviroserve	Yes
Effluent Sludge	Н	9 m3				Enviroserve	Yes

<sup>\*</sup>Note: During 2012/13 the cut-to-size concept was adopted. Currently more than 90% of Aluminium is procured under the cut-to-size concept.





#### **ENERGY AND WATER USAGE**

Denel Aerostructures is participating in the Denel Group energy saving project and the occupation of buildings has been reduced from 54 000 square meters to 25 000 square meters. Electricity consumption was reduced by 20% from 2012/2013 consumption of 1 004 953 KWH per month to 800 021 KWH per month. Water usage is managed by Denel Industrial Properties but effluent quality is managed by DAe.

#### **ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES**

- DAe's products are in accordance with customer requirements, and comply with all applicable legislation. In addition products comply with European Regulations (REACH).
- As part of the operating procedure all hazardous substances are contained in environmentally safe storage and handling facilities and reviewed on a weekly basis.

RATING	SCORE	TRANSFORMATION STATUS	DESCRIPTION
5	100%	Transformed	This level shows exceptional achievement of targets in the transformation plan of an entity that is far beyond expectation. Transformation has become embedded in the entity's culture and practices.
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0.0 – 2.99	0 % - 59%	Inadequate transformation	This level indicates that the entity has not achieved and/or implemented the transformation initiatives as planned.

#### WATER EFFLUENT PROCESSING PLANT

Denel Aerostructures is operating an environmentally sound waste water recycling plant to ensure the re-utilisation of around 75% of its water requirements for its advanced production processes. The plant is fully operational and is delivering high quality demineralized water (5 – 20 µS/cm) at 25 – 30 kl/day for the company. The water recycling plant also cleans water for the remainder of the Denel Kempton Park campus and in total discharges 280 kl/day of treated water to the Ekurhuleni sewage system complying with the National Water Act, 1998, Wastewater Discharge Standards. DAe uses around 10 kl/day from Rand Water as top-up into the plant, in addition to feeds received by other tenants on the campus. Hazardous heavy metals such as chrome and cadmium are neutralised before being removed through sedimentation and filter presses. This produces caked residues of around one skip/annum which are disposed of through accredited service providers to national waste management sites. Denel Aerostructures invests continuously in the maintenance and upgrade of its water treatment facilities to ensure full compliance with all national standards as well as the stringent requirements of its international customer base.

#### **MACHINE SHOP COOLING FLUID RECYCLING:**

DAe recycles its cooling fluid utilised for machine milling of metallic parts to enable the maximum re-use levels. The cooling fluid is filtered, the PH (acidity level) is restored to machine standards and the bacterial growth is controlled in real time. This process reduces waste and allows re-utilisation of cooling fluid in excess of 95%.

#### **MACHINE SHOP SWARF RECYCLING:**

Machine milling at DAe produces approximately 100 ton of swarf (aluminium chips) per annum. This swarf is compacted into bricklets and sold to be recycled and utilised in non-aerospace manufacturing industries.



## REPORT OF THE AUDIT & RISK COMMITTEE

The audit and risk committee is independent and consists of four independent, non-executive directors. It meets at least three times per year as per its terms of reference. Attendance of meetings, dates of appointments, and qualifications of the members are included in the governance report on page 58. 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 in terms of 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 entity's operations covered in the scope of internal and external audits.
- The adequacy, reliability and accuracy of financial information provided ed by management.
- Accounting and audit concerns identified through internal and external audits.
- The entity's compliance with legal and regulatory provisions.
- The effectiveness of the internal audit function.
- The activities of the internal audit function, including its annual audit plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- The independence and objectivity of the external auditors.

The committee is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained. This opinion is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with internal audit, as well as the independent external auditors on the results of their audits.

Other than as reported in the directors' report, nothing significant has come to the attention of the committee indicating any material breakdown in the functioning of these controls, procedures and systems during the period under review. The committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

#### **EXTERNAL AUDITOR APPOINTMENTS AND INDEPENDENCE**

The committee nominated and recommended SizweNtsalubaGobodo with Kwiname Equifin as subcontractors, as independent external auditors for the financial year ending 31 March 2014 at the AGM. The committee has satisfied itself that the external auditors was independent of the group, as set out in the Companies Act, which includes consideration or conflicts of the interest as prescribed by the PAA. Requisite assurance was sought and provided by the external auditor that internal governance processes within the audit firm support and demonstrate its claims to independence. The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2014 year.

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

The committee has evaluated the annual financial statements of Denel Aerostructures SOC Ltd for the year ended 31 March 2014 and based on the information provided to it, considers that they comply in all material respects with the requirements of the South African Companies Act, the PFMA and IFRS. Furthermore, the audit and risk committee concurs that the adoption of the going concern assumption in the preparation of the annual financial statements is appropriate. At its meeting of 19 June 2014, the committee recommended the adoption of the annual financial statements by the board of directors.

Fikile Mhlontlo
Chairman of the audit and risk committee





# INDEPENDENT AUDITORS REPORT TO THE MEMBER OF DENEL AEROSTRUCTURES SOC LIMITED ON THE FINANACIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

#### INTRODUCTION

We have audited the financial statements of Denel Aerostructures SOC Limited as set out on pages 99 to 155, which comprise the statements of financial position as at 31 March 2014, the statements of comprehensive income, statement of changes in net equity and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, 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 financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (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 my opinion, the financial statements present fairly, in all material respects, the financial position of Denel Aerostructures SOC Limited as at 31 March 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa

#### 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, report of the Audit Committee, 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 our reading of these reports, we have not identified material inconsistencies between the reports and the audited financial statements. However, we have not audited these reports and accordingly we do not express an opinion thereon.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

#### PREDETERMINED OBJECTIVES

The performance against predetermined objectives has been consolidated at Denel SOC Ltd group.

#### **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 my audit of the financial statements, performance report and compliance with laws and regulations.

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

SizweNtsalubaGobodo
Director – Phumeza Nhantsi
Registered Auditor
Charted Accountant (SA)

20 Morris Street East Woodmead 2191







### DIRECTORS' RESPONSIBILITIES AND APPROVAL

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

The directors are responsible for the integrity and fair presentation of the annual financial statements of Denel Aerostructures SOC Ltd. The annual financial statements presented on page 99 to 155 have been prepared in accordance with International Financial Reporting Standards, the South African Companies Act No. 71 of 2008 (as amended) and the Public Finance Management Act No. 1 of 1999. These annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The directors have supervised the preparation of information included in the annual report and are responsible for both its accuracy and consistency.

The directors are satisfied that at the time of approving the annual financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this conclusion, the directors considered the cash position at 31 March 2014, the cash requirements for at least twelve months from that date, the available financial guarantee from Denel SOC Ltd and the announced recapitalisation of the company by National Treasury. The going concern is discussed in more detail on page 96 of this report.

The external auditors are responsible for independently auditing and reporting on the annual financial statements. The report of the independent auditors appears on page 91. The directors are of the opinion that the annual financial statements fairly present the financial position of Denel Aerostructures SOC Ltd and the results of its operations and cash flow for the year ended 31 March 2014. The annual financial statements for the year ended 31 March 2014, set out on page 99 to 155, have been prepared under the supervision of Ms C Slabbert CA(SA) and were approved by the Board of Directors on 24 July 2014 in terms of the Companies Act and the Public Finance Management Act and is signed on their behalf by:

Dr G C Cruywagen

Dr G C Cruywagen Chairman of the Board Ismail Dockrat
Chief Executive Officer

### CERTIFICATE BY COMPANY SECRETARY

The Company Secretary certifies that the company has lodged with the Companies and Intellectual Property Commission (from 1 May 2011) all such returns as are required of a public company in terms of the Companies Act, 71 of 2008 and that all such returns are true, correct and up to date



Ms V Ravjee Company Secretary

### DIRECTORS' REPORT

Financial Review

The financial results for the year under review are presented and discussed below:

	ACTUAL 2014 R	ACTUAL 2013 R
Turnover	438 089 362	261 524 452
Cost of sales	(468 465 283)	(309 030 211)
Gross profit/(loss)	(30 375 921)	(47 505 759)
Other income	23 133 130	83 617 750
Other operating expenses	(36 670 636)	(81 715 852)
Profit/(loss) before interest and tax	(43 913 427)	(45 603 861)
Net interest	10 970 968	(5 240 581)
Loss for the year	(32 942 459)	(50 844 442)







The company is showing steady signs of improvement in financial performance with a reduced loss of R 33-million compared to the prior year of R51-million. This can largely be attributed to the following:

- Turnover for the year under review was R177-million more than the prior years' turnover. This contributed
  positively to the improved net loss position for the current year. The increased sales are mainly due to the
  increased orders received on the Airbus programme and additional short term work packages obtained
  on the A400M Programme.
- Other Income consists mainly of foreign exchange gains.
- Operating expenses are R45-million lower than the prior year, which is mainly due to cost saving that has been implemented.

DAe remains in a turnaround phase and due to the historic structural misalignment between its revenue and cost bases, it will continue to post losses in the short to medium term before achieving break even in 2016/17.

## SIGNIFICANT CONTRACTS AIRBUS A400M

DAe is contracted for the design, development, manufacture, supply and supporting activities of the Airbus A400M Wing-to-Fuselage Fairing (WFF) and Top Shells (TS) structural components. The WFF is an essential part of the aircraft that provides protection against lightning strikes, hail damage and bird strikes to the sensitive equipment under the centre wing portion. The TS form part of the primary structure of the fuselage and also provides system brackets supporting the vital electric and electronic wiring, hot air and heat exchange piping and including the aircraft's life-rafts.

DAe embarked on an A400M ramp-up schedule with the production of eight ship sets in 2012/13 and 16 in 2013/14. Production thus increased by 100% from the previous financial year. To date, the year-on-year ramp-up targets were met successfully and DAe is gearing up for the planned completion of 24 ship sets in 2014/15. Since contract signature in early 2005, DAe has designed and manufactured 34 WFF and 38 TS ship sets. Airbus delivered its first two production aircraft (MSN007 and 8) to the French Air Force in the second quarter of 2013. In April 2014, the third production aircraft was delivered to the Turkish Air Force and Airbus' planned customer delivery rate will ramp-up to two per month at the end of 2014.

The transfer of the Ribs, Spars and Sword (RSS) work package from Airbus Stade to DAe continued in 2013/14. The RSS contract involves the manufacture and supply of composite parts for the vertical tail plane of the A400M aircraft. Steady progress of the transfer of the RSS work package, from Airbus Germany to DAe, was made as the first article production parts were manufactured and accepted by Airbus in August 2013. Full RSS ship set production will begin in mid-2014.

As a result of firmly establishing itself as a reliable supplier in Airbus' global supply chain network, DAe has been invited to tender on further A400M business opportunities. DAe was awarded two of four A400M Cargo Hold System work packages which went out on tender in May 2013. The total contract value of the two cargo hold system work packages is approximately R300m over a six year period.

The A400M programme accounted for revenue of R355m during the year under review.

#### **FUNDING**

During the year under review the net Cash outflow amounted to R129 million which was R12 million better than forecasted. The positive balance in the loan account at 31 March 2014 is R323 million and should be sufficient to carry the company until it becomes cash positive in 2017/18.

Denel Aerostructures managed cash and working capital tightly, ensuring minimal exposure to liquidity risk.

#### **REVERSAL OF IMPAIRMENT OF ASSETS**

Due to the improved economic environment DAe has experienced increased orders leading to PPE (machines) operating at an increased capacity, 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 R42 million (2012/13: R2m).

#### **GOING CONCERN**

DAe was able to meet and exceed its turnaround targets during the previous three financial years and the Board is confident that it will also be successful in the future financial years. The net equity position at year-end is healthy with a balance of R 329m compared to the previous financial year of R 362m. The cash balance is R 323 million at year-end. This cash balance is deemed sufficient to fund the working capital requirements of DAe for the turnaround plan before break even in 2016/17.

The successfully renegotiated Airbus contract ensured a financially viable programme and order book security for the future. With the solvent balance sheet, Shareholder's backing and proven manufacturing capability of the facility, the DAe Business Development Team is enabled to win more work packages for the future.

Taking the above factors into consideration, the Board of Directors is comfortable to prepare the annual financial statements for the financial year ending 31 March 2014 on the going concern basis. In assessing the appropriateness of the going concern assumption, all available information, which is at least but not limited to twelve months from the end of the reporting period, is taken into account.

#### **SHARE CAPITAL**

Denel Aerostructures SOC Ltd is a wholly owned subsidiary of Denel SOC Ltd. The authority to issue shares vests in the shareholder. Directors do not have the authority to issue shares on behalf of the company. There have been no changes in the authorised share capital of the company for the financial year under review.



#### **DIVIDENDS**

No dividends were declared or paid during the 2014 financial year (2013: R nil).

#### **COMPLIANCE WITH ACCOUNTING STANDARDS**

The annual financial statements for the year ending 31 March 2014 comply with International Financial Reporting Standards (IFRS).

#### **AUDITORS**

The external auditors for the year under review, SizweNtsalubaGobodo, were appointed by Denel SOC Ltd. The statutory auditors for the forthcoming year will be confirmed at the Annual General Meeting to be held on 11 November 2014.

#### **DIRECTORS AND SECRETARY**

The company secretary role is fulfilled by Ms Vaneesha Ravjee who is a Qualified Admitted Attorney of the High Court of South Africa (TPD). The address of the registered office of the company and company secretary is:

Denel Aerostructures SOC Ltd

P O Box 11

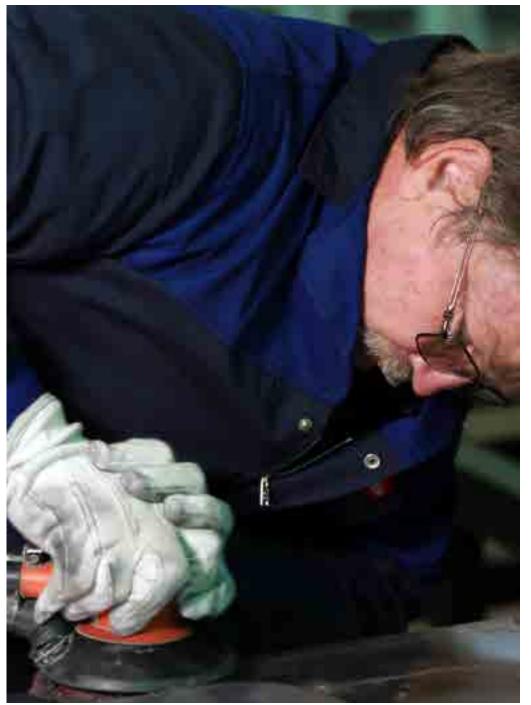
Kempton Park

1620

Details of the Directors of the company are reported on page 18 of the annual report.

#### **EVENTS AFTER THE REPORTING PERIOD**

In order to identify events after the reporting period, all material matters affecting the company between the approval of the annual financial statements and the publication of this report were taken into account. No matters arose between 31 March 2014 and 24 July 2014.















## STATEMENT OF FINANCIAL POSITION as at 31 March 2014

ASSETS	Notes	2014 R	2013 R
NON-CURRENT ASSETS		201 701 682	116 337 319
Property, plant and equipment	9	201 701 682	116 337 319
Current assets		577 995 803	681 308 012
Inventories	12	118 <i>77</i> 3 363	77 186 565
Trade and other receivables	13	136 531 379	151 916 579
Other financial assets	14.1	159 846	215 993
Cash and cash equivalents	15	322 531 215	451 988 875
Assets classified as held for sale	10	5 493	
TOTAL ASSETS			

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

	THE RESERVE THE PROPERTY OF THE PERSON NAMED IN		
EQUITY AND LIABILITIES	Notes	2014 R	2013 R
EQUITY			
Share capital	16	1 689 103 579	1 689 103 579
Issued capital	16.1	600	600
Share premium	16.2	1 689 102 979	1 689 102 979
Accumulated loss		(1 359 919 339)	(1 326 976 880)
TOTAL EQUITY		329 184 240	362 126 699
NON-CURRENT LIABILITIES		337 744 710	341 171 640
Borrowings	18	336 236 949	336 236 949
Provisions	20.1	1 <i>507 7</i> 61	4 934 691
CURRENT LIABILITIES		112 774 028	94 346 992
Trade and other payables	21	82 098 930	60 464 448
Advance payments received	19	1 119 611	8 906 469
Provisions	20.2	29 555 487	24 976 075
TOTAL LIABILITIES		450 518 <i>7</i> 38	435 518 632
TOTAL EQUITY AND LIABILITIES		779 702 978	797 645 331



## STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 March 2014

	Notes	2014 R	2013 R	
Revenue	3	438 089 362	261 524 452	
Cost of sales	4	(468 465 283)	(309 030 211)	
GROSS LOSS		(30 375 921)	(47 505 759)	
Other income	5	23 133 130	83 61 <i>7 7</i> 50	
Other operating expenses	4	(36 670 636)	(81 715 852)	
OPERATING LOSS		(43 913 427)	(45 603 861)	
Finance costs	7.1	(5 894 012)	(7 806 452)	
Finance income	7.2	16 864 980	2 565 871	
LOSS BEFORE TAX		(32 942 459)	(50 844 442)	
Income tax expense	8			
LOSS FOR THE YEAR		(32 942 459)	(50 844 442)	
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX				
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(32 942 459)	(50 844 442)	

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2014

	NOTES	ORDINARY SHARES R	SHARE PREMIUM R	ACCUMULATED LOSS R	TOTAL EQUITY/ (DEFICIT) R
Balance at 1 April 2012		400	789 103 179	(1 276 132 438)	(487 028 859)
Total comprehensive income				(50 844 442)	(50 844 442)
Loss for the year				(50 844 442)	(50 844 442)
Other comprehensive income				-	<u>-</u>
Issue of share capital	16	200	899 999 800		900 000 000
Balance at 31 March 2013		600	1 689 102 979	(1 326 976 880)	362 126 699
Total comprehensive income				(32 942 459)	(32 942 459)
Loss for the year				(32 942 459)	(32 942 459)
Other comprehensive income				• • • • • • • • • • • • • • • • • • • •	
Issue of share capital	16	-	-		
Balance at 31 March 2014		600	1 689 102 979	(1 359 919 339)	329 184 240

## STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS		2014 R	2013 R
for the year ended 31 March 2014	Notes	*	*
OPERATING ACTIVITIES			
Net cash flows used in operating activities		(67 644 521)	(149 090 347)
Receipts from customers		453 721 339	292 072 199
Payments to suppliers and employees		(524 549 970)	(418 223 072)
Cash utilised in operations	23	(70 828 631)	(126 150 873)
Decrease in advance payments received	19	(7 786 858)	(17 698 893)
Finance costs		(5 894 012)	(7 806 452)
Finance income		16 864 980	2 565 871
Income tax paid			
INVESTING ACTIVITIES			
Net cash flows used in investing activities		(61 813 139)	(11 164 060)
Purchase of property, plant and equipment	9	(62 009 852)	(19 849 642)
Proceeds from sale of property, plant and equipment		196 713	8 685 582
Net cash flows before financing activities		(129 457 660)	(160 254 407)
FINANCING ACTIVITIES			
Net cash flows from financing activities		-	612 236 282
Repayments of interest bearing borrowings		-	(287 763 718)
Proceeds from share capital issued		-	900 000 000
Net (decreased) / increase in cash and cash equivalents		(129 457 660)	451 981 875
CASH AND CASH EQUIVALENTS:			
At the beginning of the year		451 988 875	7 000
At the end of the year	15	322 531 215	451 988 875





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

#### 1 CORPORATE INFORMATION

Denel Aerostructures SOC Ltd is incorporated and domiciled in South Africa. The company's principle business is to provide design services, manufacture and assemble aerostructures. The annual financial statements are presented in South African Rand (Rand), which is also the company's functional and reporting currency and all values are rounded to the nearest Rand.

#### **2 ACCOUNTING POLICIES**

#### 2.1 STATEMENT OF COMPLIANCE

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

#### 2.2 BASIS OF PREPARATION

The 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, which are measured at fair value. The preparation of annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application

of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

#### 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial period except for changes due to the adpotion of new IFRS standards, amendments to IFRS standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the period or which has been early adopted.

The following table shows the IFRS standards, amendments to IFRS standards and IFRIC interpretations that have been adopted during the period:

STANDARD OR INTERPRETATION	TITLE	EFFECTIVE DATE	IMPACT AND APPLICATION
IFRS 1	First-time Adoption of International Financial Reporting Standards  • Government Loans – Amendments to IFRS 1	1 January 2013	No impact, the company has no Government Loans
IFRS 7	Financial Instruments: Disclosures  • Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013	No impact, the company has no offset arrangements
IFRS 10	Consolidated Financial Statements	1 January 2013	No impact, the company doesn't prepare conolidated financial statements
IFRS 11	Joint Arrangements	1 January 2013	No impact, the company has no interest in joint arrangements
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	No impact, the company has no interests in other entities

#### **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)**

STANDARD OR INTERPRETATION	TITLE	EFFECTIVE DATE	IMPACT AND APPLICATION
IFRS 13	Fair Value Measurement	1 January 2013	Limited impact, the company has currently no transaction or balances that are measured at fair value with the exception of items disclose as required by IFRS 7
IAS 1	Presentation of Financial Statements  • Presentation of Items of Other Comprehensive Income	1 July 2012	No impact, the company has currently no transactions in Other Comprehensive Income
IAS 19	Employee Benefits (Amendment)	1 January 2013	No impact, the company doesn't have any defined benefit plans
IAS 27	Consolidated and Separate Financial Statements  Reissued as IAS 27 Separate Financial Statements (as amended in 2012)	1 January 2013	No impact, the company doesn't prepare separate financial statements
IAS 28	Investments in Associates  Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2012)	1 January 2013	No impact, the company has no interest in associates or joint ventures.
IFRS 1	Annual Improvements  First-time Adoption of International Financial Reporting Standards "  Repeated application of IFRS 1  Borrowing costs"	1 January 2013	No impact, the company doesn't have any transactions or balances that fall within the scope of the improvements
IAS 1	Presentation of Financial Statements  Clarification of the requirements for comparative information	1 January 2013	No impact, the company doesn't have any transactions or balances that fall within the scope of the improvements
IAS 16	Property, Plant and Equipment  Classification of servicing equipment	1 January 2013	No impact, the company doesn't have any transactions or balances that fall within the scope of the improvements
IAS 32	Financial Instruments: Presentation  Tax effect of distribution to holders of equity instruments	1 January 2013	No impact, the company doesn't have any transactions or balances that fall within the scope of the improvements
IAS 34	Interim Financial Reporting  Interim financial reporting and segment information for total assets and liabilities	1 January 2013	No impact, the company doesn't have any transactions or balances that fall within the scope of the improvements

The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the company, however some additional disclosure is required.





#### **IFRS 13 FAIR VALUE MEASUREMENT**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price., which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result of the guidance in IFRS 13, the company reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities.

Application of IFRS 13 has not materially impacted the fair value measurements of the company's assets and liabilities, however the additional disclosures required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

In accordance with the transitional provisions of IFRS 13, the company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

#### 2.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the company'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 annual financial statements:

## REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

The company 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 company uses the percentage of completion method in accounting for its contract revenue.

The stage of completion is determined based on the costs incurred to date as a percentage of total estimated cost of each contract.

Contract revenue comprises of the initial amount of revenue agreed in the contract, contract variation orders (CVOs) and claims and incentive payments. The company evaluates cost to completion on all contracts to determine the extent of revenue to be recognised, as well as to assess the profitability of a contract. In the instance where costs exceed expected revenue, a provision for contract losses is raised. In determining the cost to completion, the following assumptions are used:

- Labour hours are estimated based on a review of the
  outstanding functionalities and the experience of the
  project managers in conducting similar processes, as well
  as their understanding of the requirements. In cases where
  the process requires new and unique work, anticipated
  hours are used.
- The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content.



- Manufacturing overheads are allocated pro rata according to IAS 11 Construction Contracts. Indirect costs are not specifically allocated to a product or an activity.
- Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases.
- Inflation and rates of exchange adjustments are made based on information supplied by reputable banks.
- Technical obsolescence on aircraft contracts where rapidly changing technology may result in a re-engineering requirement on these systems.

Management made significant judgements on the following:

#### AIRBUS A400M CONTRACT

The contract costs to completion on the A400M contract have been calculated based on management's best estimates taking into account the technical and industrial uncertainties attached to the programme. These include quantities to be delivered on specific dates, escalations and a delay of 4 years. No provision has been made for contract losses on the contract as these are offset by the indemnity agreement signed by the government.

### IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Impairment assessments are performed that demonstrate impairment indicators. The company's impairment tests for property, plant and equipment are based on fair value less cost to sell using the estimated fair value of the assets less the estimated costs of disposal.

#### PRODUCT WARRANTIES

Anticipated warranty cost is based on the technical risk estimations in terms of single opportunity production contracts, and historical data in terms of repetitive production type contracts. The estimation is based on past experience (proven results) and varies per type of contract. This is expressed, as a percentage of cost of sales, ranging from nil to 10.0%, and is determined at the quotation phase and is reviewed on a regular basis.



# 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.5.1 REVENUE RECOGNITION

### SALE OF GOODS AND SERVICES

Revenue comprises the invoiced value of goods and services, net of Value Added Tax, rebates and discounts. Revenue from the sale of goods is recognised in profit or loss when significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

### **IONG-TERM CONTRACTS**

Contract revenue and costs relating to long-term construction contracts are recognised in profit or loss in proportion to the stage of completion of the project at year-end if the outcome of a contract can be estimated reliably.

However, when the outcome of a contract cannot be reliably measured then revenue is recognised to the extent of contract costs incurred that is probable of being recovered, while contract costs are recognised in the period in which they are incurred. Depending on the nature of the contract, the stage of completion is determined as follows:

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

A group of contracts, whether with a single customer or with several customers, are treated as a single construction

contract when the contracts are so closely inter-related such that they are, in effect, part of a single project with an overall profit margin.

### CONTRACT REVENUE COMPRISES:

- a) The initial amount of revenue agreed in the contract:
- 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 company seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations.

Therefore, claims are included in contract revenue only when:

- Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- 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.

#### FINANCE INCOME

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 company.

### OTHER INCOME

Other income is any income that accrues to the company from activities that are not part of the normal operations and is recognised when it is probable that future economic benefits will flow to the entity.

# 2.5.2 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a component of the company'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. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs.

Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to its subsequent disposal. Impairment losses on initial classification as held for sale are recognised in profit or loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are recognised in profit or loss.

### 2.5.3 PROVISIONS

Provisions are recognised when the company 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.



### **2.5.4 TAXES**

Income tax for the year comprises of current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date and any adjustments relating to prior years.

Deferred tax is provided in full using the liability method for temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and

at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply for the year when the asset is realised or the liability is settled based on tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will realise. Deferred tax assets and liabilities are recognised on a net basis for each tax entity.

Revenue, expenses and assets are recognised net of the amount of value added tax (VAT) except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable
- Receivables and payables that are stated with the amount of VAT included
- The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.



### 2.5.5 FINANCIAL INSTRUMENTS

The company initially recognises financial assets and liabilities on the trade date at which the company 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 company has the following classes: financial assets at fair value through profit or loss, as well as loans and receivables (including insurance receivables). The company currently does not hold any held-to-maturity or available-forsale assets.

### LOANS AND RECEIVABLES

Loans receivables

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. The interest bearing loan account of the holding company is used as a banking facility and the holding company invests the surplus funds on behalf of the company, therefore it is classified as cash and cash equivalents.

### FINANCIAL HABILITIES

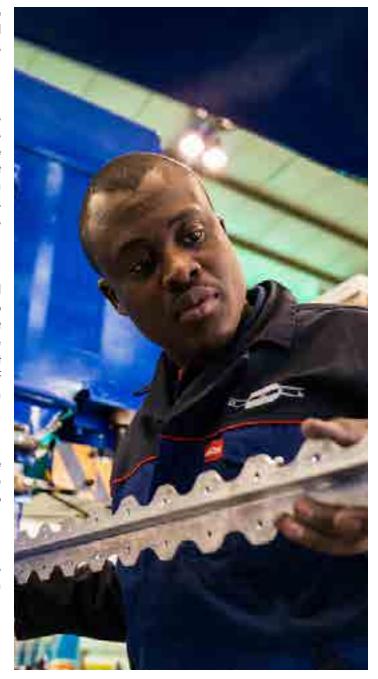
A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowing.

### **BORROWINGS**

After initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated after having taken into account any issue costs, discounts and premium on settlement.

### TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost. Gains and losses on the derecognition process are recognised in profit or loss.



# THIS ABILITY OF 'MAKING COMPLEX THINGS' DESERVES TO BE PLACED IN A LARGER SOCIETAL CONTEXT OF SUSTAINABLE ECONOMIC GROWTH AND JOB CREATION

# 2.5.5 FINANCIAL INSTRUMENTS (CONTINUE)

DERIVATIVE FINANCIAL INSTRUMENTS

The company 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 company 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 company contracts in various currencies based on the preference and location of the client. Where the economic characteristics and risks of the host contract and the embedded derivative are not closely related, then the embedded derivative is recognised separately. The embedded derivative is measured at fair value through profit or loss.

Foreign exchange embedded derivatives are brought into account when the company 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. The company view USD, GBP and EURO 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 sales, cost of sales, operating costs or a related asset to reflect a Rand host contract at the initial expected forward rate when risks and rewards pass to customers or the company.

### **OFFSET**

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### FINANCIAL ASSETS

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

- The contractual rights to receive cash flows from the asset have expired, or
- The company retains the contractual right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or
- The company 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 company 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 company'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 company could be required to repay.

### FINANCIAL LIABILITIES

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

### 2.5.6 FOREIGN CURRENCIES

RECORDING OF FOREIGN TRANSACTIONS

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

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the prevailing date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined.

# 2.5.7 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment.

The cost of an item of property, plant and equipment includes all costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials, direct labour and the initial estimate, where applicable, of the costs of dismantling and removing the item and restoring the site on which it is located. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately.

### **DEPRECIATION**

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

The estimated useful lives are as follows:

- Plant 3 to 40 years
- Machinery and equipment 3 to 60 years
- Vehicles 5 years
- Office furniture and accessories 3 to 20 years
- Computer equipment 3 to 5 years

The useful lives and the residual values of items of property, plant and equipment are reassessed annually.

### SUBSEQUENT EXPENDITURE

Subsequent expenditure relating to an item or part of an item of property, plant and equipment is capitalised when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised in accordance with the principles set out below. All other costs are recognised in profit or loss as an expense when incurred.

### DERECOGNITION

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

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

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

### SPARE PARTS

Major spare parts and servicing equipment qualify as property, plant and equipment when the company 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.

### **2.5.8 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 company are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset.

The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is expensed over the lease period, and the capital repayment, which reduces the liability to the lessor.

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

Combined leases with land components and building components are considered separately for classification purposes. At inception of the lease, the minimum lease payments are allocated to the components in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease.

If this cannot be measured reliably, then the lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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

### 2.5.9 RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the company 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.





# 2.5.10 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.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor
- restructuring of an amount due to the company on terms that the company would not consider otherwise
- indications that a debtor or issuer will enter bankruptcy
- adverse changes in the payment status of borrowers or issuers

- the disappearance of an active market for a security
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets

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 company'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. 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 to reduce the carrying amount of the 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. 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.

### 2.5.11 INVENTORIES

Inventories are stated on the first-in-first-out (FIFO) basis at the lower of cost price and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business less the cost of completion and selling expenses. The weighted average basis is used for certain inventory items such as chemicals and liquids where it is not practical to apply the FIFO basis.

The standard cost method is used where the results approximate the actual cost. Under a standard costing system the cost of a product is determined using predetermined rates for the material, labour and overhead expenses based on manufacturing specifications.

Where inventory has been acquired on extended credit terms, the cost is adjusted with the interest expense and recognised over the payment period in profit or loss. Where trade discounts, rebates and similar items are received, it is deducted in determining the cost of inventory.





The following specific methods are applied in determining cost price:

Raw materials and bought-out components

These are valued at direct cost of purchase plus the other costs incurred to bring it to its present location and condition.

• Work-in-progress, finished products and contracts-in-progress

These are valued at cost and include the cost of purchase of direct materials, direct labour, allocated variable and fixed production overheads based on normal production levels.

• Consumable inventories

Consumable inventories, such as spare parts and maintenance equipment, are valued at the direct cost of purchase and classified as inventory.

### 2.5.12 FINANCE EXPENSE

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest rate method. 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.

### 2.5.13 ADVANCE PAYMENTS RECEIVED FROM SALES CONTRACTS

In the case of comprehensive and/or long-term sales contracts, advance payments are negotiated with local and foreign clients. These funds are used to finance the execution of contracts which include advance payments to suppliers, finance long-lead inventory items and work-in-progress. Guarantees are provided to clients for advance payments received.

Advance payments received are recognised as a current liability for the 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.

### 2.5.14 EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The company operates a defined contribution plan of which the assets are held in separate trustee administered funds. The plan is funded by payments from employees and by the relevant business entities based on the recommendations of independent qualified actuaries. The company's obligations for contributions to the defined contribution pension plans are recognised as an expense in profit or loss in the year to which they relate.







At the date of authorisation of the annual financial statements for the year ended 31 March 2014, the following standards and interpretations were in issue but not yet effective and not early applied by the company:

STANDARD OR INTERPRETATION	TITLE	ISSUE DATE	EFFECTIVE DATE
IFRS 9	Financial Instruments	November 2009 October 2010 November 2013	Effective date to be announced
IFRS 7	Financial Instruments: Disclosures  — Mandatory Effective Date and Transition Disclosures Amendments to IFRS 9 and IFRS 7	December 2011	1 January 2015 (or otherwise when IFRS 9 is first applied)
IFRS 9	Financial Instruments  — Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	November 2013	Effective date to be announced
IFRS 14	Regulatory Deferral Accounts	January 2014	1 January 2016
IAS 32	Financial Instruments: Presentation  — Amendments to application guidance on the offsetting of financial assets and financial liabilities	December 2011	1 January 2014
IAS 36	Impairment of Assets Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36	May 2013	1 January 2014
IAS 39	Financial Instruments: Recognition and Measurement  — Novation of Derivatives and Continuation of Hedge Accounting  – Amendments to IAS 39	June 2013	1 January 2014
IFRS 10, IFRS 12 & IAS 27	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014
IAS 19	Employee Benefits  — Defined Benefit Plans: Employee Contributions	November 2013	1 July 2014
IFRIC 21	Levies (IFRIC 21)	May 2013	1 January 2014





STANDARD OR INTERPRETATION	TITLE	ISSUE DATE	EFFECTIVE DATE
IFRS 3 IFRS 8 IFRS 13 IAS 16 IAS 24	ANNUAL IMPROVEMENTS TO IFRSS 2010–2012 CYCLE Share-based payment  Definition of vesting condition Business combinations  Accounting for contingent consideration in a business combination Operating segments  Aggregation of operating segments  Reconciliation of the total of the reportable segments' assets to the entity's assets Fair value measurement  Short-term receivables and payables Property, plant and equipment  Revaluation method—proportionate restatement of accumulated depreciation Related party disclosures  Key management personnel Intangible assets  Revaluation method—proportionate restatement of accumulated amortisation	December 2013	1 January 2014
IFRS 3	ANNUAL IMPROVEMENTS TO IFRSS 2011–2013 CYCLE First-time Adoption of International Financial Reporting Standards Meaning of 'effective IFRSs'. Business Combinations Scope exceptions for joint ventures. Fair Value Measurement Scope of paragraph 52 (portfolio exception). Investment Property Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	December 2013	1 July 2014

The following new standards, the amendments to the standards and interpretations as per table above are not relevant to the company: IFRS 14 Regulatory Deferral Accounts, IFRS 10, IFRS 12 & IAS 27 investment entities (Amendments to IFRS10, IFRS 12 and IAS 27), IAS 19 Employee Benefits and IFRIC 21 Levies

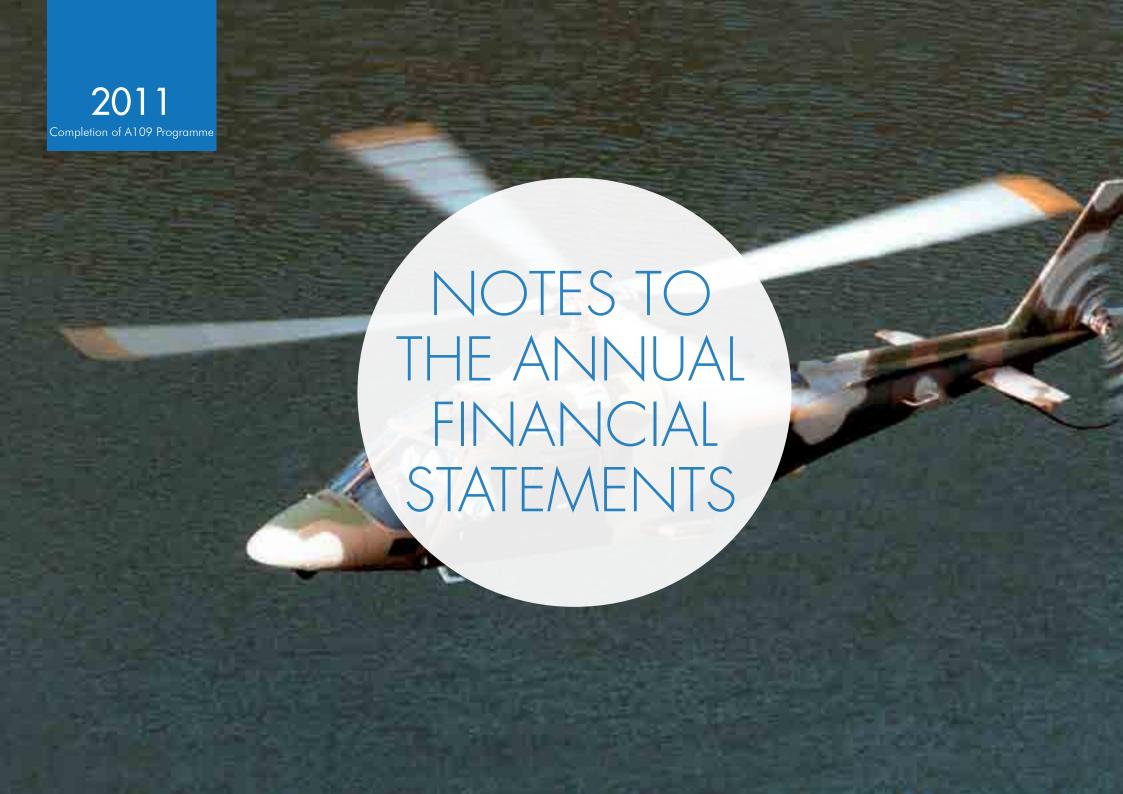
The company currently have no transaction or balances that would require remeasurement or disclosure as a result of the amendments to the following standards: IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement as well as the Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

### **IFRS 9 FINANCIAL INSTRUMENTS**

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The mandatory effective date has been deferred until completion of all phases with the issue of IFRS 9 Financial Instruments Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 during November 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets, but will not have an impact on classification and measurements of the company's financial liabilities. The company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

### **IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES**

The amendments to IFRS 7 relate to additional disclosures requirement on the transition from IAS 39 to IFRS 9 as well as the madatory effective date.





	2014 R	2013 R
3 REVENUE	438 089 362	261 524 452
4 COST OF SALES AND OTHER OPERATING EXPENSES		
Cost of sales and other operating expenses are arrived at after taking the following items into account:		
Impairment reversed	(42 148 952)	(48 966 304)
Property, plant and equipment (refer note 9)	(40 837 386)	
Inventories (refer note 12)	(1 311 566)	(48 966 304)
Auditors' remuneration	1 000 000	1 147 590
Current year	1 000 000	1 000 000
Other		147 590
Depreciation (refer note 9)	17 300 998	14 867 790
Buildings	1 084 656	623 542
Plant and Machinery	1 <i>5 7</i> 86 420	13 930 639
Vehicles and office furniture	83 845	96 538
Computer equipment	346 0 <i>77</i>	21 <i>7</i> 071
Operating lease payments	10 470 707	14 960 347
Buildings	8 675 011	13 247 197
Plant and Machinery	<i>77</i> 5 1 <i>7</i> 3	697 690
Computer equipment	1 020 523	1 015 460
Directors' remuneration <sup>1</sup>	4 887 173	4717516

Executive directors	4 887 1 <i>7</i> 3	4717516
Non - executive directors		
Consultation fees	13 480	
Costs of inventories recognised as an expense	88 271 880	36 513 414
Loss on disposal of assets		
Property, plant and equipment	170 171	1 183 394
Research and development costs	2 148 910	1 842 632
Staff costs	186 061 710	168 047 147
Services costs	138 679 199	124 511 630
Variable pay provision	24 801 002	22 322 012
Medical fund contributions	6 875 145	5 761 841
Termination benefits paid		1 409 711
Pension costs: Defined contribution plan	1 <i>5 7</i> 06 364	14 041 953

Detailed remuneration is fully disclosed in the note 26 as Compensation paid to key management personnel. Executive directors' remuneration included is from date of appointment as director. The non-executive directors are remunerated by the holding company.





Net gains on financial instruments (refer note 6)	20 691 896	135 527
Profit on disposal of property, plant and equipment	190 500	76 456
Gain on redemption of loan from Saab (refer to note 18)		78 613 341
Other 1	2 250 734	4 792 426
	23 133 130	83 617 750
Other is mainly made up of scrap sales, insurance claims, low claim bonuses and discount received.		

6 NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS		
Net foreign exchange differences	20 748 043	409 267
Gains on settled transactions	(56 147)	(3 149 562)
Losses on fair value adjustments		2 875 822
Gains on fair value adjustments	20 691 896	135 527

7 NET FINANCE COST		
The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):		
7.1 Finance costs		
Other interest paid	368	-
Inter-group finance costs	5 893 644	7 806 452
Total finance costs	5 894 012	7 806 452
7.2 Finance income		
Gross interest received	1 043	69 463
Inter-group finance income	16 863 937	2 496 408
Total finance income	16 864 980	2 565 871
Net finance costs	(10 970 968)	5 240 581





8 TAXATION EXPENSE		
SA Normal tax		
Current tax	-	-
Deferred tax (refer note 11)	-	-
No provision for SA Normal tax has been made as the company is in a calculated tax loss position.		
The calculated tax losses available for offset against future taxable income are as follows:		
Calculated tax losses	1 328 211 302	1 227 500 629
Net available calculated tax losses	1 328 211 302	1 227 500 629
	%	%
Reconciliation of tax rate		
Effective tax rate	-	-
Adjustment in tax rate due to:	28.0	28.0
Deferred tax asset not recognised	28.4	40.8
Taxable at capital gains tax rate		(12.8)
Deductible allowances	(0.7)	(0.1)
Non-tax deductible expenses	0.3	0.1
SA Normal tax rate	28.0	28.0

9 PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDINGS	PLANT AND MACHINERY	VEHICLES AND OFFICE FURNITURE	COMPUTER EQUIPMENT	TOTAL
	R	R	R	R	R
2014					
arrying value at the beginning of the eriod	9 885 629	105 369 066	317 512	765 112	116 337 319
additions	3 134 552	58 476 002		399 298	62 009 852
Disposals	-	(149 632)	(26 749)	(3)	(176 384)
ransfer to assets held for sale	-	(5 493)			(5 493)
npairment for the year (refer note 4)	-	40 139 792	329 930	367 664	40 837 386
Depreciation for the year (refer note 4)	(1 084 656)	(15 786 420)	(83 845)	(346 077)	(17 300 998)
Carrying value at the end of the period	11 935 525	188 043 315	536 848	1 185 994	201 701 682
Cost	13 570 496	361 460 594	1 473 572	7 758 531	384 263 193
accumulated depreciation and impairment	(1 634 971)	(173 417 279)	(936 724)	(6 572 537)	(182 561 511)
Carrying value at the end of the period	11 935 525	188 043 315	536 848	1 185 994	201 701 682





9 PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDINGS R	PLANT AND MACHINERY R	VEHICLES AND OFFICE FURNITURE R	COMPUTER EQUIPMENT R	TOTAL R
2013					
Carrying value at the beginning of the period	1 352 345	118 121 <i>75</i> 6	314 843	259 043	120 047 987
Additions	9 675 290	9 352 003	99 207	723 142	19 849 642
Disposals	(518 464)	(8 174 054)	-	(2)	(8 692 520)
Transfer to assets held for sale	(623 542)	(13 930 639)	(96 538)	(217 071)	(14 867 790)
Carrying value at the end of the period	9 885 629	105 369 066	317 512	765 112	116 337 319
Cost	10 435 944	303 617 631	1 <i>7</i> 69 841	7 815 598	323 639 014
Accumulated depreciation and impairment	(550 315)	(198 248 565)	1 452 329	(7 050 486)	(207 301 695)
Carrying value at the end of the period	9 885 629	105 369 066	317 512	765 112	116 337 319

Registers containing the information required by Regulation 25(3) of the Companies Regulations, 2011 of property, plant and equipment are available for inspection at the business address of the company.

Owing to the operating losses within the company, the property, plant and equipment has been assessed for impairment. IAS 36 Impairment of assets provides that the recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The impairment was based on the fair value less cost to sell for all property, plant and equipment items. Certain property, plant and equipment were impaired in the recent past due to a lack of orders. Since the company has manage to conclude a number of new orders during the year which result in the optimal used of certain of the assets impaired, the impairment for the effected assets has been reversed and no further impairment on other assets were necessary.

Plant and machinery includes assets under construction of Rnil (2013: R5 888 391).

	2014 R	2013 R
10 NON-CURRENT ASSETS HELD FOR SALE		
Assets held for sale		
Property, plant and equipment	5 493	
The company classified a certain item of property, plant and equipment as held for sale as it is in the process of selling a cutting machine and a precision cutting system due to the current and projected utilisation. The company had received an offer of R350 000 for the asset.		





	201 <i>4</i> R	2013 R
11 DEFERRED TAX		
Deferred tax assets	-	-
Deferred tax liabilities		-
Movement of deferred tax assets and liabilities:	-	-
Balance at the beginning of the period	-	
Per statement of comprehensive income	-	-
	-	· · · · · · · · · · · · · · · · · · ·
Net deferred tax asset comprises:	-	-
Provisions and accruals	12 207 596	11 281 747
Property, plant and equipment allowance	1 986 373	18 992 215
Prepayments received	313 491	2 493 811
Limit deferred tax asset to liability	(167 716)	(165 783)
Deferred tax not recognised	(14 339 744)	(32 601 990)
		<u> </u>
Net deferred tax liability comprises:	-	-
Embedded derivative assets	44 757	60 478
Prepayments made	122 959	105 305
Deferred tax not recognised	(167 716)	(165 783)
		<u>.</u>

12 INVENTORIES		
Inventories are valued at the lower of cost and net realisable value and are categorised as follows:		
Raw materials and bought-out components	91 117 088	50 293 033
Work in progress	17 459 857	16 696 580
Contracts in progress	1 033 243	1 753 319
Good in transit in bound	9 163 175 118 773 363	8 443 633 77 186 565
Accumulated impairment	7 539 597	8 851 163
Net amount of write-down/(write back) of inventories recognised as an expense	88 271 880	36 513 414
13 TRADE AND OTHER RECEIVABLES		
Financial assets	132 403 511	125 039 549
Trade receivables	57 272 778	59 807 438
Trade receivables: Inter-group	3 802 262	375 113
Amount due from customers for contract work	63 315 517	57 249 797
Other receivables	8 012 954	<i>7</i> 607 201
Non-financial assets	4 127 868	26 877 030
Prepayments and advances made	4 046 200	26 742 053
Other receivables	81 668	134 977
	136 531 379	151 916 579

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms. Specific impairments are made for identified doubtful debts. Amounts due from customers for contract work relates to the Indemnity claim that is outstanding for payment from the Department of Public Enterprises. The company expects to receive the payment of the Indemnity claim in December 2014. The amount outstanding at 31 March 2013 was paid during December 2013. Prepayments made during the period were for the purchases of inventory and property, plant & equipment.



14 OTHER FINANCIAL ASSETS	-	-
Embedded derivatives	-	-
Foreign exchange embedded derivatives	159 846	215 993
15 CASH AND CASH EQUIVALENTS	3 000	3 000
Cash and short-term deposits (refer note 15.1)	322 528 215	451 985 875
Loan receivable from holding company (refer note 15.2)	322 531 215	451 988 875
15.1 Cash and short-term deposits	-	-
Cash on hand	3 000	3 000
Cash on hand is cash available as petty cash and earn no interest.	-	-
15.2 Loan receivable from holding company The interest bearing loan account of the holding company is used as a banking facility. On a daily basis the balance of the bank account of the company is off-set against that of the holding company. The group treasury department is responsible for the funding of the group who invest and borrow money at the most advantageous rate for the group. Interest on loan account is earned at market rates. The funds included in the loan account are available on demand.	322 528 215	451 985 875



16 SHARE CAPITAL	2014 R	2013 R
16.1 Ordinary shares		
Authorised		
Number of shares	1 000	1 000
Par value @ R1 each	1 000	1 000
Issued		
Number of shares		
Balance at the beginning of the period	600	400
Shares issued during the year	-	200
Balance at the end of the period	600	600
Par value @ R1 each		
Balance at the beginning of the period	600	400
Shares issued during the year		200
Balance at the end of the period	600	600
16.2 Share premium		
Balance at the beginning of the period	1 689 102 979	789 103 179
Shares issued during the year	-	899 999 800
Balance at the end of the period	1 689 102 979	1 689 102 979
16.3 Total issued share capital		
Balance at the b-	1689 103 579	789 103 579
Shares issued during the year		900 000 000
Balance at the end of the period	1689 103 579	1689 103 579



The unissued shares are under the control of the shareholders. The directors do not have the authority to issue shares on behalf of the company

17 EQUITY PORTION OF SHAREHOLDERS LOAN		
Balance at the beginning of the period	-	528 013 800
Reclassified to non-current borrowings during the year	-	(528 013 800)
Balance at the end of the period	-	

18 BORROWINGS		
Unsecured loan from Denel SOC Ltd	336 236 949	336 236 949
Unsecured non interest bearing loan	200 000 000	336 236 949
Unsecured interest bearing loan	136 236 949	
Non-current portion of interest bearing loans and borrowings	336 236 949	336 236 949
Current portion of interest bearing loans and borrowings	-	-
Total loans and borrowings	336 236 949	336 236 949
Summary of maturity of borrowings		
Maturing within 12 months	-	-
Maturing within 12 to 60 months	336 236 949	336 236 949
Weighted average effective interest rates	336 236 949	336 236 949
Unsecured loan from shareholder	4.3%	6.2%

During the previous financial year the company repaid R200 000 000 of the unsecured non-current loan from Denel SOC Ltd, its shareholder, using the cash received from the re-capitalisation of the company by the shareholder (refer note 16). A portion of the loan was previously classified as equity as the repayment of it was remote, however the equity portion of the loan has been re-classified to non-current loan during the previous year (refer note 17). During the year the loan was split in a non interest bearing portion and an interest bearing portion. Interest is charge to the company at a market related rate of 4.75%. During the previous financial year the company has re-paid the current loan from its share holder using the cash received from the re-capitalisation of the company by the shareholder. This interest bearing loan relates to the overdraft facility utilised by the company.

During the previous financial year the company successfully negotiated with Saab AB the full settlement of the loan for R22 249 992. The company has therefore recognised a gain of R78 613 341.

19 ADVANCE PAYMENTS RECEIVED	2014 R	2013 R
Non-current	-	-
Current	1 119 611	8 906 469
	1 119 611	8 906 469

20 PROVISIONS	2014 R	2013 R
20.1 Non-current provisions		
Onerous contracts	1 507 761	4 934 691
20.2 Current provisions	29 555 487	24 976 075
Product warranty and support	4 754 485	2 654 063
Staff related provisions	24 801 002	22 322 012
	31 063 248	29 910 766





	ONEROUS CONTRACTS R	PRODUCT WARRANTY AND SUPPORT R	STAFF RELATED PROVISIONS R	TOTAL R
20 PROVISIONS (CONTINUED)				
Reconciliation				
2014				
Balance at the beginning of the period	4 934 691	2 654 063	22 322 012	29 910 766
Realised	(3 426 930)	-	(22 322 012)	(25 748 942)
Charged to the income statement	-	2 100 422	24 801 002	26 901 424
	1 507 761	4 754 485	24 801 002	31 063 248
2013				
Balance at the beginning of the period	13 893 384	2 093 158	22 259 026	38 245 568
Realised	(8 958 693)	-	(22 259 026)	(31 217 719)
Charged to the income statement	-	560 905	22 322 012	22 882 917
	4 934 691	2 654 063	22 322 012	29 910 766

# **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 contract was concluded in 2004. At the time the company required high capital investment and cost escalation. Additional manufacturing costs had to be incurred to deliver to the customer as well as escalation in material prices. Management implemented a process to manage all project risks. During September 2012 a better sales price was introduced to reduce the total contract loss.

### PRODUCT WARRANTY AND SUPPORT

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

# **STAFF RELATED PROVISIONS**

Staff related provisions comprise a provision for Variable remuneration. This 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 R24 801 002 (2013: R22 322 012).

	2014 R	<b>2013</b> R
21 TRADE AND OTHER PAYABLES		
Financial liabilities	82 098 930	60 464 448
Trade payables	32 559 910	28 620 908
Trade payables : Inter group	7 900 311	4 676 564
Other accruals	41 638 709	27 166 976
Non- financial liabilities	-	-
	82 098 930	60 464 448

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 the terms (refer note 18).

### **22 CONTINGENT LIABILITIES**

### **CONTRACT LOSSES**

The company hold contracts underwritten by external parties. These contracts have a total approximate value of R2 269 071 657 and estimated future contract loss of approximately R57 829 303 (2013: R133 629 007), the significant decrease in future losses is due to successful renegotiations on the Airbus A400M work packages. The A400M programme now supports a viable and sustainable business case for the company in the long term. The company is reimbursed for some losses on these contracts. To date, all claims have been honoured and therefore no provisions relating to these contract losses have been raised. The company's claim for reimbursement of the loss for the year was R63 315 517 (2013: R57 249 797).





	2014 R	2013 R
23 NOTES TO THE CASH FLOW STATEMENT		
Reconciliation of profit with cash retained from operations		
Net loss before tax	(32 942 459)	(50 844 442)
Adjusted for:	(33 319 056)	(68 608 657)
(Profit) / Loss on disposal of property, plant and equipment <sup>1</sup>	(20 329)	1 106 938
Depreciation <sup>1</sup>	1 <i>7</i> 300 998	14 867 790
Remeasurement of derivatives	-	(167 641)
Remeasurement of embedded derivatives	56 1 <i>47</i>	(2 708 182)
Interest paid (refer note 7)	5 894 012	7 806 452
Interest received (refer note 7)	(16 864 980)	(2 565 871)
Decrease/(Increase) in provisions	1 152 482	(8 334 802)
Impairment reversed on property, plant and equipment <sup>1</sup>	(40 837 386)	-
Gain on redemption of loan from Saab (refer note 5)	-	(78 613 341)
Operating loss before changes in net current assets	(66 261 515)	(119 453 099)
Changes in net current assets:	(4 567 116)	(6 697 774)
Increase in inventories	(41 586 798)	(21 603 094)
Decrease in receivables	15 385 200	3 867 302
Increase in trade and other payables	21 634 482	11 038 018
Cash utilised in operations	(70 828 631)	(126 150 873)

24 CAPITAL COMMITMENTS	2014 R	2013 R
Approved and contracted for	4 633 236	51 553 701
Buildings and infrastructure	1 268 256	-
Plant and machinery	3 095 163	51 533 774
Computer equipment	269 817	19 927
	4 633 236	51 553 701

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.

# **25 NON-CANCELLABLE LEASES**

# **OPERATING LEASES**

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

	BUILDINGS R	PLANT AND MACHINERY R	COMPUTER EQUIPMENT R	TOTAL R
2014				
Less than one year	8 675 011	754 594	740 753	10 170 358
Between one and five years	26 979 660	1 755 205	-	28 734 865
More than five years	24 636 176	-	-	24 636 176
	60 290 847	2 509 799	740 753	63 541 399
2013				
Less than one year	12 998 933	661 219	1 015 460	14 675 612
Between one and five years	24 636 176	3 415 961	921 754	28 973 891
More than five years	30 795 220	1 089 323	-	31 884 543
	68 430 329	5 166 503	1 937 214	75 534 046

The buildings are leased on a ten year term from the holding company. The lease payments are fixed over the lease term. The plants and machinery leases mainly comprises forklifts and gas equipment. The lease term varies between 5 and 8 years. The lease contract for computer equipment can be terminated with 3 months noticed.



### **26 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.

## **DENEL GROUP**

Denel SOC Ltd is the controlling shareholder of the company and therefore the ultimate parent for all companies in the group. Related parties to Denel is due to this relationship also related parties to the company.

### NATIONAL GOVERNMENT AND STATE CONTROLLED ENTITIES

Denel SOC Ltd is fully controlled by its sole shareholder, the Government represented by the Department of Public Enterprises. The Denel Group operates in an economic environment currently dominated by business entities directly or indirectly owned by the Government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties. The list of public entities in the national sphere of Government was provided by the National Treasury.

### **KEY MANAGEMENT PERSONNEL**

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the business entity. All individuals who are members of the Denel Executive Committee and the Board of Directors, as well as the business entity CEOs are regarded as key management. Close family members of key management personnel are considered to be those family members who may influence, or be influenced by key management in their dealings with the entity. There were no material transactions other than the directors' emoluments.

### TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

During the year the company, 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 company. These transactions occurred under terms that are no less favourable than those arranged with third parties.



# THE FOLLOWING TRANSACTIONS WERE CARRIED OUT WITH RELATED PARTIES:

	MAJOR NATIONAL PUBLIC ENTITIES R	NATIONAL GOVERNMENT R	ASSOCIATED COMPANIES R	DENEL GROUP R
2014				
Purchases of goods	-	-	221 616	2 210 264
Sales of goods	27 974	63 315 517	-	9 308 704
Services rendered	-	-	-	407 886
Services received	28 844	-	-	42 309 030
Lease payments	1 069	-	-	8 675 011
Interest received	-	-	-	16 863 937
Interest paid	-	-	-	5 893 644
Outstanding balances payable	-	-	221 616	344 137 261
Outstanding balances receivable	-	63 315 517	-	326 330 477
2013				
Sales of goods	33 672	57 249 797	4 385 580	8 769 444
Services rendered	-	-	-	12 061
Services received	19 787	275	-	44 312 052
Lease payments	1 009	-	-	12 998 933
Interest received	-	-	-	2 496 408
Interest paid	-	-	-	7 806 452
Outstanding balances payable	-	-	41 800	340 913 513
Outstanding balances receivable	-	57 249 797	-	452 361 008



	2014	2014	2014	2013	2013	2013
	SHORT-TERM EMPLOYEE BENEFITS R	POST-EMPLOYEE BENEFITS R	TOTAL R	SHORT-TERM EMPLOYEE BENEFITS R	POST-EMPLOYEE BENEFITS R	TOTAL R
Compensation paid to key management personnel						
Ismail Dockrat	2 970 296	201 641	3 171 937	3 017 958	193 855	3 211 813
Christine Slabbert	1 537 678	98 154	1 635 832	1 416 582	89 121	1 505 703
	4 507 974	299 795	4 807 769	4 434 540	282 976	4 717 516

### **27 FINANCIAL RISK MANAGEMENT**

The company 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 company'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 company's management of capital is also discussed. Further quantitative disclosures are included throughout the annual financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The board has delegated its responsibility to the audit and risk committee, who is responsible for the development and monitoring of the company's risk management policies. The committee meets three times a year and regularly reports to the board on its activities. The company's risk management policies are established to identify and analyse the risks faced by the company, 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 company's activities.

The audit and risk committee is assisted in its oversight role by the internal audit department, who undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit and risk committee.

### **27.1 CREDIT RISK**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the company'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 audit and risk committee 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. Management is 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 within the company (includes but is not limited to payment history);

The most recent credit rating of the country that the potential customer operates in, from the Denel Group's Treasury Department. Countries are graded by major international banks and these grading are published on a regular basis. The company 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 company 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.

### 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 company's concentration of risk for all non-derivative financial assets:

	2014 DOMESTIC R	2014 FOREIGN R	2014 TOTAL R	2013 DOMESTIC R	2013 FOREIGN R	2013 TOTAL R
Trade receivables	629 156	56 643 622	57 272 778	57 492 584	2 314 854	59 807 438
Government & related entitles	-	-	-	57 249 797	1 333 513	58 583 310
Non-government entities	629 156	56 643 622	57 272 778	242 787	981 341	1 224 128
Amount due from customers for contract work						
Government & related entitles	63 315 517	-	63 315 517	57 249 797	-	57 249 797
Sundry receivables	8 012 954	-	8 012 954	7 607 201	-	7 607 201
Government & related entitles	-	-	-	-	-	
Non-government entities	8 012 954	-	8 012 954	7 607 201	-	7 607 201
Trade receivables: Inter-group	3 802 262	-	3 802 262	375 113	-	375 113
	75 759 889	56 643 622	132 403 511	122 724 695	2 314 854	125 039 549



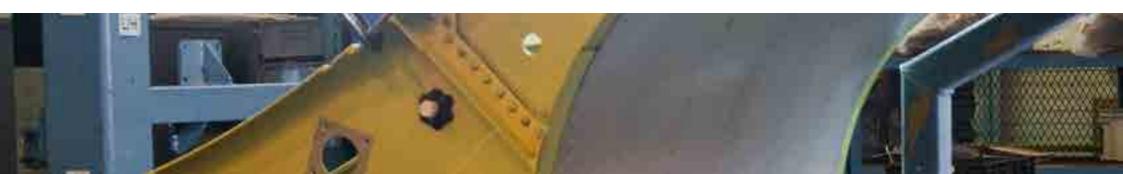
	2014 R	2013 R
27 FINANCIAL RISK MANAGEMENT (CONTINUED)		
Credit exposure and concentrations of credit risk (continued)		
Ageing		
The ageing of financial assets at the reporting date is included below. The ageing categories include:		
Trade receivables		
Trade receivables - not impaired	57 272 778	59 807 438
Not past due	34 206 627	35 972 933
Past due	-	-
Less than 30 days	23 066 151	21 108 <i>7</i> 39
30 to 60 days	-	2 721 754
More than 90 days	-	4 012
	57 272 778	59 807 438
Amount due from customers for contract work		
Not past due, not impaired	63 315 517	57 249 797
Other receivables		
Other receivables - not impaired		
Not past due	8 012 954	7 607 201
Trade receivables: Inter-group		
Not past due, not impaired	3 802 262	375 113
Trade and other receivables (Note 13)	132 403 511	125 039 549

# **27.2 LIQUIDITY RISK**

A centralised group treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the company as a whole. Updated cash flow information and projections of future cash flows are sent to the group treasury on a daily, weekly and monthly basis (depending on the type of funding required). Measures are in place to ensure that the cash flow information received is accurate and complete. The group treasury assits the company with funding when required and manage the surplus funds to the best advantage of the company. In prior years the company received subordinated shareholder's loans. The company's liquidity was improve during the year due to a recapitalisation of the company.

# **CONTRACTUAL UNDISCOUNTED CASH FLOWS**

	CARRYING AMOUNT R	TOTAL CASH FLOWS R	LESS THAN 3 MONTHS R	BETWEEN 3 AND 12 MONTHS R	BETWEEN 1 AND 5 YEARS R
Exposure to liquidity risk					
The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:					
2014					
Unsecured borrowings	336 236 949	336 236 949	-		336 236 949
Trade and other payables	82 098 930	82 098 931	40 460 222	41 638 709	-
	418 335 879	418 335 880	40 460 222	41 638 709	336 236 949
2013					
Unsecured borrowings	336 236 949	336 236 949	-		336 236 949
Trade and other payables	60 464 448	60 464 448	4718364	55 746 084	-
	396 701 397	396 701 397	4 718 364	55 746 084	336 236 949





#### **27.3 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 company's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the company'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. The company is assisted by the centralised group treasury to manage the company's exposure to market risk.

#### **INTEREST RATE RISK**

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The company is primarily exposed to upward interest rate movements on borrowings. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost. Treasury monitors interest rates on a daily basis and the policy is to maintain short-term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

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

	2014 R	2013 R
Variable rate instruments		
Loans and other receivables	322 528 215	451 985 875
Unsecured loan from shareholders	136 236 949	-
Fair value sensitivity analysis for fixed rate instruments		

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

Cash flow sensitivity analysis for variable rate instruments

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

Impact: change in interest rate	931 456	2 259 929
---------------------------------	---------	-----------

Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.



#### **CURRENCY RISK**

Currency risk arises from the movement in foreign exchange rates. The company's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. No speculating in foreign currency is allowed within the company. As a result of the lack of banking facilities, the company did not hedge foreign exchange transactions. Bank accounts of foreign offices are not hedged. Proceeds received from export contracts that would be used to pay foreign suppliers on the same contract are natural hedged by keeping funds in the CFC accounts.

	2014 US DOLLAR (USD)	2014 EURO (EUR)	2013 US DOLLAR (USD)	2013 EURO (EUR)
The company's exposure to currency risk was as follows based on the notional amounts:				
Assets	410 242	3 706 021	854 209	11 336 562
Trade receivables	285 400	3 706 021	729 367	11 336 562
Embedded derivatives (export sales)	124 842	-	124 842	-
Liabilities	(540 883)	325 918	-	-
Trade payables	(540 883)	(325 918)		-
Balance sheet exposure	(130 641)	3 380 103	854 209	11 336 562
Forecast transactions: sales	(124 842)		-	-
Net exposure	(255 483)	3 380 103	854 209	11 336 562
27.3 MARKET RISK	R	R	R	R
A 5.0% strengthening of the Rand against the following currencies at 31 March would have increased/(decreased) profit or loss by the following amounts:				
Impact: change in foreign exchange rate	(135 099)	2 458 214	257 888	6 712 492

A 5.0% weakening of the Rand against the above currencies at 31 March would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The impact on the company's equity is equal to the impact on the profit or loss.





	FOREIGN CUR- RENCY NOTION- AL AMOUNT 1 YEAR	FOREIGN CURRENCY NOTIONAL AMOUNT 2-5 YEARS	FOREIGN CURRENCY NOTIONAL AMOUNT TOTAL	LOCAL CURRENCY AMOUNT R	FAIR VALUE R
Foreign currency derivatives					
The fair value of foreign currency derivatives are disclosed in note 14.					
2014					
Embedded derivatives					
Export transactions					
US Dollar (USD)	124 842	-	124 842	1 223 452	1 383 298
				1 223 452	1 383 298
2013					
Embedded derivatives					
Export transactions					
US Dollar (USD)	124 842	-	124 842	1 177 797	1 393 790
				1 177 797	1 393 <i>7</i> 90



	NOTE	LOANS AND RECEIVABLES R	LIABILITIES AT AMORTISED COST R	HELD FOR TRADING R	TOTAL CARRYING VALUE R	FAIR VALUE R
27.4 FAIR VALUE OF FINANCIAL ASSETS AND	LIABILITIES					
The categorisation of each class of financial asset and liability, including their fair values, are included below:						
2014						
Financial assets						
Trade and other receivables	13	132 403 511			132 403 511	132 403 511
Derivative financial assets	14.1			159 846	159 846	159 846
Cash and cash equivalents	15.1	322 531 215			322 531 215	322 531 215
Financial liabilities						
Interest bearing borrowings	18		(336 236 949)		(336 236 949)	(336 236 949)
Trade and other payables	21		(82 098 930)		(82 098 930)	(82 098 930)
		454 934 726	(418 335 879)	159 846	36 758 693	36 758 693
2013						
Financial assets						
Trade and other receivables	13	125 039 549			125 039 549	125 039 549
Derivative financial assets	14.1			215 993	215 993	215 993
Cash and cash equivalents	15.1	451 988 875			451 988 875	451 988 875
Financial liabilities						
Interest bearing borrowings	18		(336 236 949)		(336 236 949)	(336 236 949)
Trade and other payables	21		(60 464 448)		(60 464 448)	(60 464 448)
		577 028 424	(396 701 397)	215 993	180 543 020	180 543 020



## **27 FINANCIAL RISK MANAGEMENT (CONTINUED) 27.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

#### **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 financial instruments that are not traded in an active market (for example, forward foreign exchange contracts) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of embedded derivatives is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

#### **FAIR VALUE HIERARCHY**

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Currently the only financial assets that are measured at fair value are the financial assets and liabilities disclosed in note 14 and falls within level 2 of the hierarchy. During the year there were no transfers between any of the levels of fair value measurements.

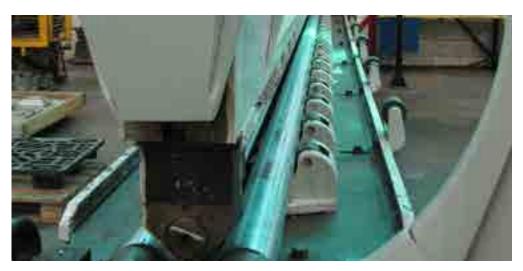
#### **28 CAPITAL MANAGEMENT**

The Board's policy is to maintain a strong capital base to maintain stakeholder confidence and to sustain future development of the business. The company considers its capital to comprise of total equity. The company may adjust its capital structure by way of issuing new shares and is dependent on its shareholders for additional capital, as required. The company 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 company on a continuous basis.

The capital resources of the company has been depleted during the past years as a result of loss making contracts and inadequate working capital to optimise the labour and capital intensive operations throughout the company. The shareholder, Denel SOC Ltd, has inject R900 million into the company during the previous financial year. The company utilised a portion of this additional capital to settle the loan from Saab AB (a former shareholder) and to repay R200 million of non-current borrowings from Denel SOC Ltd. The company further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times. There were no changes in the company's approach to capital management during the year. The company is not subject to externally imposed capital requirements.

#### 29 POST-RETIREMENT OBLIGATIONS

The company has no post retirement obligations. The company is a participating employer of the Denel Retirement Fund. This fund was established by Denel SOC Ltd as a retirement fund scheme that covers all qualifying employees of the Denel Group which include employees of the company. 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 profit or loss as it is incurred.











## VALUE ADDED STATEMENT FOR THE YEAR ENDED 31 MARCH 2014

Value added is a measure of the wealth that the company 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 company for continuation and expansion of operations.

	2014 R	<b>2014</b> %	2013 R	<b>2013</b> %
Revenue	438 089 362		261 524 452	
Less: Cost of materials and services purchased	(340 676 569)		(206 638 385)	
Value added	97 412 793		54 886 067	
Add:				
Finance income	16 864 980		2 565 871	
Other income	23 133 130		83 61 <i>7 7</i> 50	
Wealth created	137 410 903		141 069 688	
Distributed as follows:				
Employees: Salaries and relevant costs	186 061 710	135.4	168 047 147	119.2
Providers of capital	5 894 012	4.3	7 806 452	5.5
Interest on borrowings	5 894 012	4.3	7 806 452	5.5
Government				
Tax (refer note A)	1 934 028	1.4	1 192 741	0.8
Re-invested in the company for continuation and expansion	(56 478 847)	(41.1)	(35 976 652)	(25.5)
Depreciation and impairment of Property, plant and equipment (refer note 4)	(23 536 388)	(17.1)	14 86 <i>7 7</i> 90	10.5
Accumulated profit	(32 942 459)	(24.0)	(50 844 442)	(36.0)
Wealth distributed	137 410 903	100	141 069 688	100

	2014 R	<b>2014</b> %	2013 R	<b>2013</b> %
Note A				
Tax				
UIF contributions	687 921		607 012	
Net skills development levy	1 246 107		585 729	
	1 934 028		1 192 <i>7</i> 41	
The total amount reflected above excludes the following amounts collected by the company on behalf of Government:				
Net VAT	(48 759 157)		(29 476 585)	
Charged on sales	1 715 017		3 318 359	
Levied on purchases	(50 474 174)		(32 794 944)	
Employees' taxation	38 600 849		36 736 564	
UIF contributions	687 921		607 012	
	(9 470 387)		7 866 991	



2012
New contract with US
Business Jet



## FIVE-YEAR REVIEW

INCOME STATEMENT	2014 R	2013 R	2012 R	2011 R	2010 R
Revenue	438 089 362	261 524 452	260 143 903	281 027 479	430 475 107
Loss before net finance cost	(43 913 427)	(45 723 857)	(73 950 456)	(223 274 567)	(282 997 470)
Net finance cost (before capitalised interest)	(10 970 968)	5 240 581	4 401 498	13 980 631	45 405 150
Depreciation	17 300 998	14 867 790	29 864 646	14 587 606	11 752 530
Loss for the year	(32 942 459)	(50 844 442)	(78 351 953)	(237 255 198)	(328 402 620)
Cash outflow before financing activities	(129 457 660)	(160 254 407)	(65 498 906)	-	-
STATEMENTS OF FINANCIAL POSITION					
Non-current assets	201 701 682	116 337 319	120 047 987	101 008 314	121 244 216
Current assets	577 995 803	681 308 012	211 374 352	242 860 280	545 569 717
Assets held for sale	5 493		1 100 000	7 329 602	6 035
Total assets	779 702 978	797 645 331	332 522 339	351 198 196	666 819 968
Non-current liabilities	337 744 710	341 171 640	111 706 527	134 564 808	111 422 973
Current liabilities	112 774 028	94 346 992	179 830 871	278 592 102	726 698 684
Total equity	329 184 240	362 126 699	40 984 941	(61 958 714)	(171 301 689)
Non-current interest bearing borrowings	336 236 949	336 236 949	109 086 482	123 127 561	100 863 333
Current interest bearing borrowings			65 513 706	167 389 349	461 656 776
Total number of shares in issue					



STATISTICS	2014 R	2013 R	2012 R	2011 R	2010 R
ordinary shares	600	600	400	400	400
RETURNS (%)					
Operating loss to revenue	(10.0)	(17.5)	(28.4)	(79.4)	(65.7)
Operating loss to average total assets	(5.6)	(8.1)	(21.6)	(43.9)	(37.2)
Operating (loss)/profit to total equity	(13.3)	(12.6)	(180.4)	360.4	165.2
RATIOS					
Debt/ equity ratio 1	1.0	0.9	4.3	(4.7)	(3.3)
Current asset ratio	5.1	7.2	1.2	0.9	0.8
Net finance cost cover	3.0	(9.7)	(17.8)	(17.0)	(7.2)
Revenue per employee	1 045 559	660 415	681 005	591 637	570 166
Number of employees	419	396	382	475	755









## **CONTACT INFORMATION**

Denel Aerostructures SOC Ltd company registration number 2006/028012/30

Registered office is:

Astro Park

Bonaero Park

Kempton Park

1620

Postal Address is: P.O. Box 11

Bonaero Park

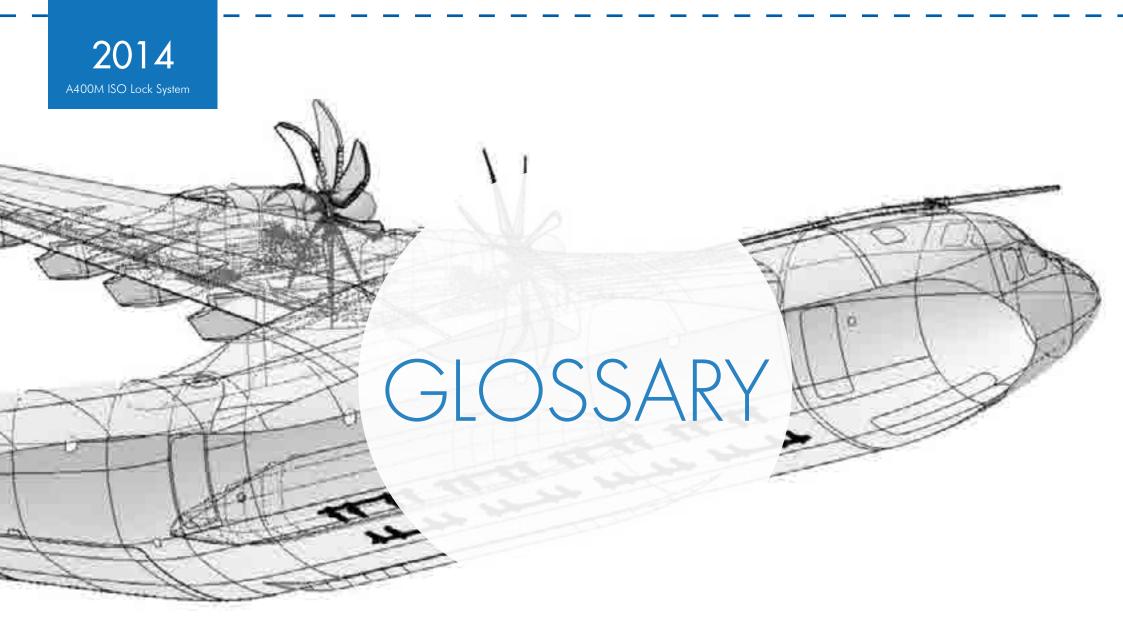
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The following people can be contacted for contribution and feedback on the sustainability report on +27 (0)11 927 2343: Ms C Slabbert; Ms L Viviers





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AAD	Africa Aerospace and Defense
AC	Actual
ACSA	Airports Company South Africa
AGM	Annual General Meeting
AMD	South African Aerospace, Maritime and Defense Industries Association
В	
BBBEE	Broad-based Black Economic Empowerment
BEE	Black Economic Empowerment
BMT	Business Management Team
Board	Board of Directors
BRICS	Brazil, Russia, India, China and South Africa
Bud	Budget
C	
CA (SA)	Chartered Accountant (South Africa)
CAF	Chief of Air Force (South Africa)
CCM	Continuous Control Monitoring
CEO	Chief Executive Officer
CFC	Controlled Foreign Currency
CFO	Chief Financial Officer
CM	Change Management
COSO	Committee of Sponsoring Organisations
CIPS	Chartered Institute of Purchasing and Supply
CRM	Customer Relationship Management

CSIR	Council for Scientific and Industrial Research
CV	Curriculum Vitae
D	
DAv	Denel Aviation
DAe	Denel Aerostructures SOC Ltd
DCO	Denel Corporate Office
DOD	Department of Defense
DPE	Department of Public Enterprises
DPS	Denel Personnel Solutions SOC Ltd
DST	Department of Science and Technology
Dti	Department of Trade and Industry
DTA	Denel Technical Academy
Е	
EASA	European Aviation Safety Agency
EBIT	Earnings before Interest and taxation
EME	Exempt Micro Enterprises
EMT	Executive Management Team
EUR	Euro (Currency unit)
EXCO	Executive Committee
Excl	Excluding
F	
FAL	Final Assembly Line
FIFO	First in First Out

G	
GBP	British sterling pound
GCEO	Group Chief Executive Officer
GDP	Gross domestic product
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
Н	
HR	Human Resources
IAS	International Accounting Standards
IASB	The International Accounting Standards Board
ICAS	Independent Counselling and Advisory Services
IDC	Industrial Development Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Inc	Incorporated
IPAP	Industrial Policy Action Plan
ISO	International Standards Organisation
IT	Information Technology
K	
KPI	Key Performance Indicator

L	
LUH	Light Utility Helicopter
Ltd	Limited
LTIFR	Lost Time Injury Frequency Rates
$\bigwedge$	
M	Million
MLGU	Main Landing Gear Unit
MOI	Memorandum of Incorporation
MW	Mega Watt
MRO	Maintenance Repair Overhaul
Ν	
NEMA	National Environmental Management Act
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
NGO	Non-governmental Oranisation
NGP	New Growth Path
NIPF	National Industrial Policy Framework
NT	National Treasury
NUMSA	National Union of Metal Workers of South Africa
$\bigcirc$	
OEMs	Original Equipment Manufacturers
OHS	Occupational Health and Safety
OHSAS	Occupational Health & Safety Advisory Services
OMT	Operational Management Team



OSHA	Occupational Safety and Health Administration
Р	
1	
PA	Personnel Assistant
PAA	Public Audit Act
PDP	Personal Development Plan
PFMA	Public Finance Management Act, no.1 of 1999
PSA	Product Supply Agreement
(PTY)Ltd	Proprietary Limited
PPPFA	Preferential Procurement Policy Framework Act
Q	
QRS	Quality Requirements Sheet
R	
Rand	South African Rand
RCCP	Rough Cut Capacity Planning
R & D	Research and Development
Rm	Rand Million
RF	Rear Fuselage
RFQ	Request for Quotes
RSS	Ribs, Spars and Sword
S	
SA	South Africa
SAA	South African Airways
SABS	South African Bureau of Standards
SAM	Social Accounting Matrix

SANCA	South African National Council on Alcoholism & Drug Dependence
SANDF	South African National Defence Force
SAPS	South African Police Services
SBL	School of Business Leadership (UNISA)
SDP	Sector Development Plan
SHE	Safety, Health and Environment
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprises
SOC	State-owned Company
SRM	Structural Repair Manual
Τ	
TETA	Transport Education Training Authority
TKB	Trisano Ka Bato Training Consultants
TS	Top Shells
TMA	Turbomeca Africa (Pty)Ltd
$\bigcup$	
UASA	United Association of South Africa
UAV	Unmanned Aerial Vehicle
UNISA	University of South Africa
USD	United States Dollar (Currency unit)
$\bigvee$	
VAT	Value Added Tax
$\bigvee\bigvee$	
WFF	Wing-to-Fuselage Fairing

# THE ADVANCED AEROSPACE MANUFACTURING AND ENGINEERING PARTNER









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