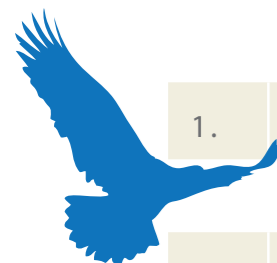




DENEL AEROSTRUCTURES

ANNUAL
REPORT
2012

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1. OVERVIEW

1. DENEL GROUP OVERVIEW

The Government of South Africa (Government) is the sole Shareholder of Denel and the company reports to the Minister of Public Enterprises. The Minister appoints an independent board of directors to, amongst things others provide strategic direction and oversight to the Denel Group. The executive management team is responsible for the day-to-day management of the company.

Denel provides turn-key solutions of defence equipment to its clients by designing, developing, integrating and supporting artillery, munitions, missiles, aircraft sub-assembly manufacturing, aircraft maintenance, unmanned aerial vehicles (UAVS) and optical payloads based on high-end technology. It further provides product and logistical support, including testing and qualification, maintenance, upgrades and decommissioning, as and when required. Denel's products and solutions are designed and developed to meet unique end-user requirements of its clients including full lifecycle support, thereby reducing cost of ownership. Programmes that are being executed include landward system projects, missiles, command and control, avionics upgrades, design and development of aerostructures components as well as demining operations. In addition to

specific development and production capabilities, Denel is a prime contractor in a number of the South African National Defence Force (SANDF) programmes, which positions Denel as a specialist contractor to global defence suppliers.

Denel plays a significant role in industrial development via key conventional technologies, diverse quality products and operational capacity through its active research and development programmes, product development, manufacturing and maintenance activities, well-defined infrastructure and strong human capital base. As such, investment in research and development (R&D) has a special economic significance in extending Denel's global footprint, apart from its conventional association with scientific and technological development. The research, design, development, integration, qualification, certification and industrialisation are done primarily in-house with selected specialised items, outsourced to strategic partner companies. Significant elements of production are outsourced to the broader South African (SA) manufacturing industry whilst some of the Denel businesses are vertically integrated with production commencing from raw materials through to final products. Denel also supports the local commercial market by supplying non-defence products. It is a fact that by leveraging the defence technology base, innovative applications have been found



to increase rail safety, crime protection, surveillance, protection of assets, mine safety management, mining drill bits, commercial brass strips, amongst others.

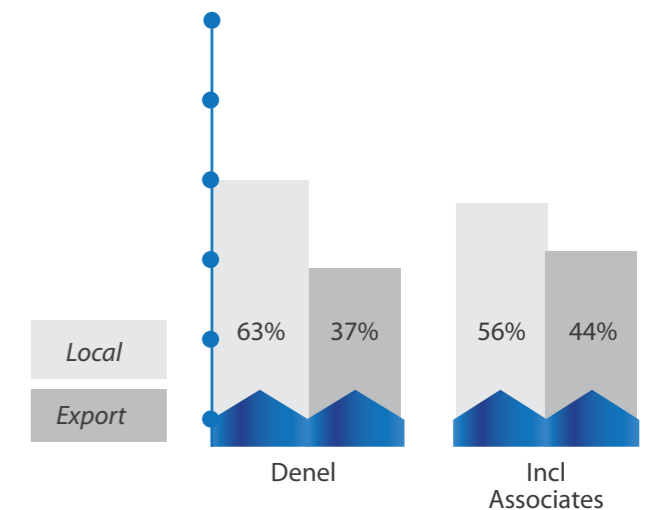
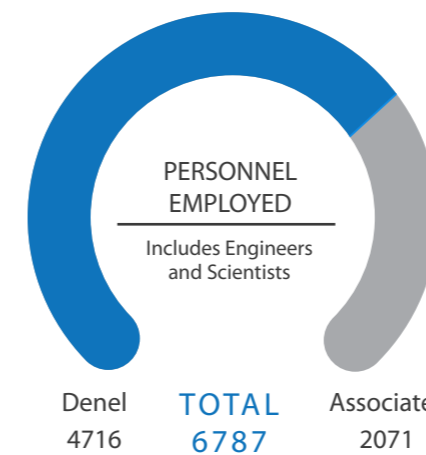
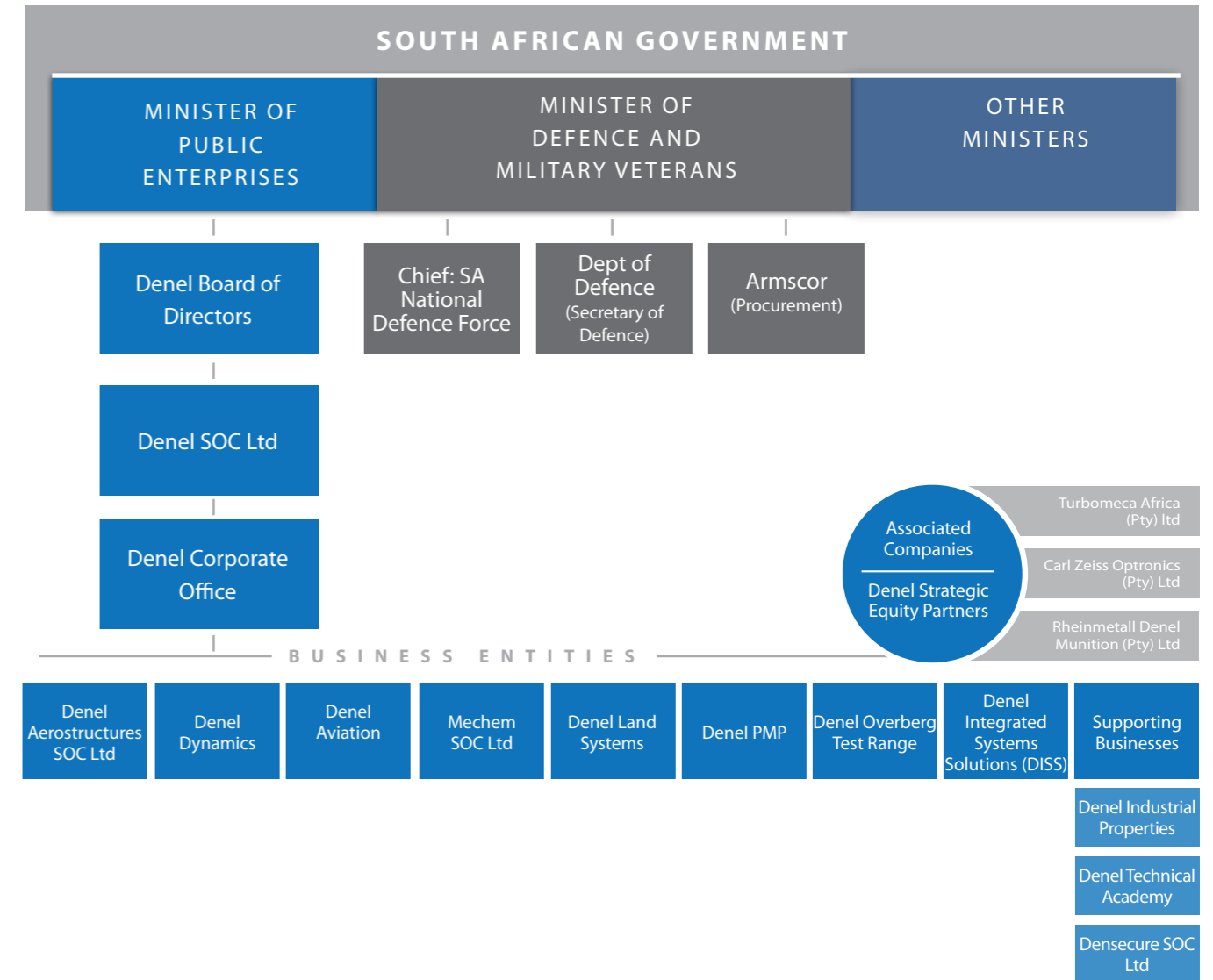
Denel delivers technologically advanced and efficient products to the global market, together with a wide range of sophisticated services and solutions to its customers. Denel is also contributing to creating safer environments with products that have been tailor-made for clients, including SANDF, the United Nations (UN), other international agencies, governments and commercial customers globally.

Denel's mandate includes contributing to national priorities as set out in the New Growth Path (NGP) and Industrial Policy Action Plan (IPAP2), particularly regarding skills and supplier development, maintaining advanced manufacturing and aerospace capabilities, optimising existing technology and exploring diversification to increase revenue and job creation. Global studies in the industry indicate that this sector has a multiplier effect of no less than four. This means that for every job in Denel there are at least three downstream jobs created in the

economy. The Denel group including the associates' employs 6 787 direct personnel with circa 30 000 indirect jobs maintained and/or supported in the economy. Denel is actively involved in artisan training, internships, apprenticeships and Maths and Science student support. Denel provides military independence and security of supply, advanced manufacturing, technology development and R&D to the country.

Denel's future activities will be significantly influenced by the outcomes of the Defence Review undertaken during the year under review. The Defence Review will also inform policy and strategy of companies in the industry. The review was completed and a first draft report issued during April 2012. The report discusses a number of issues, and recommendations that could contribute to creating a vibrant defence industry. The Defence Review process will play a significant role in growing the industry.

Denel is a group of companies and its organisation structure is provided on page 07, reflecting its business units, associated companies and reporting hierarchy.



COMPANY HISTORY

1964



Atlas Aircraft Corporation

1968



Impala

1980



Oryx

1990



Rooivalk

1992



Denel (Pty) Ltd established

2000



Gripen

2005



A400M

2007



Denel Saab Aerostructures (Pty) Ltd established

2009



Delivery of the 100th Saab Gripen Pylon 3 MK1

2009



Delivery completion of assembled A109 LUHs to the SAAF

2010



A400M WFF completed 500 hours of incident free flight testing

2011



Delivered the first WFF production unit to Airbus. SAAB exit as Shareholder

2012



Developing sustainable business agreement on Airbus A400M work packages

2. CHAIRMAN'S REPORT & BOARD OF DIRECTORS'

CHAIRMAN'S REPORT

The financial position of Denel Aerostructures (DAe) showed a marked improvement during the past financial year and the prospects for a sustained return to profitability following a number of lean years are now stronger than ever before.

The Board, together with the executive management, has devoted significant time and effort to implement a turnaround strategy for the company and we are encouraged by the positive results. Central to the improved position has been the successful completion of negotiations with Airbus Military on the terms and conditions of the contract for the work packages on the A400M programme. This resulted in the signing of a term sheet agreement in November 2011 which provides the basis for a new contract with improved conditions for the company to be concluded early in the New Year.

The relationship with Airbus Military has firmly entrenched Denel Aerostructures as an innovative and reliable Tier 1

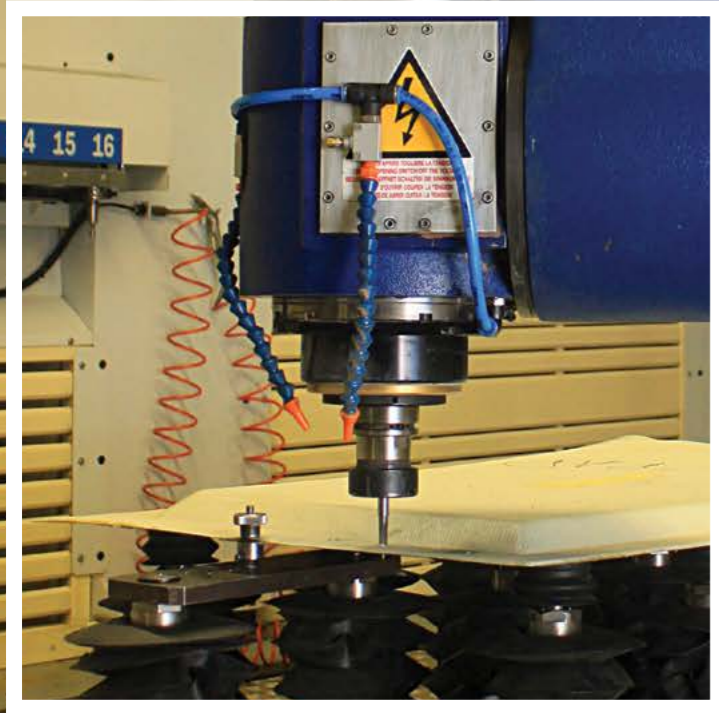
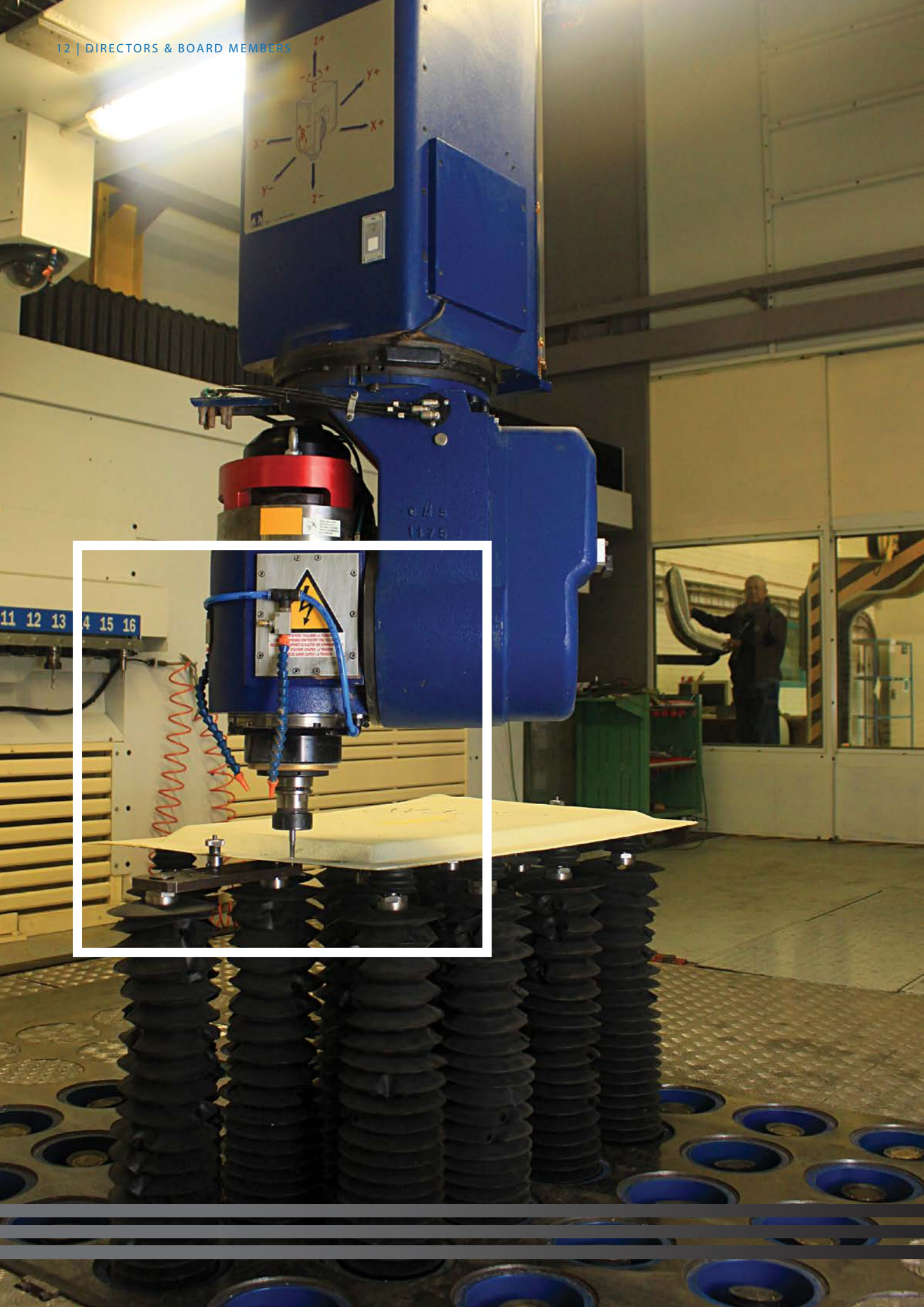
supplier to a major global manufacturer. The quality of the work performed by DAe and the adherence to deadlines and schedules has elicited high praise from the client which has bolstered the company's reputation.

The Board is confident that this will strengthen DAe's capacity to become a valued partner in future manufacturing programmes commissioned by major international players in the industry.

In the year under review we have also seen the successful completion of work packages done for manufacturers such as SAAB, AgustaWestland and Gulfstream.

The restructuring of the company was accelerated by the decision to bring the entire operation together under one roof. This has resulted in significant cost savings as well as improved operational efficiency. This process will be completed by the end of 2012 and I want to express the appreciation of the Board towards management and staff for their efforts to make this major move of equipment and production processes a reality.





Denel Aerostructures is now a much leaner and focused business and is poised to pursue exciting new opportunities that should lead to a period of sustained growth in revenue.

I am pleased to report that the company again received an unqualified audit report and has made great strides to decrease the number of previously open audit matters. There has been a marked improvement in the quality of financial management since the current leadership of the company was introduced in 2010.

The Board is confident that Denel Aerostructures will, in the near future, return to profitability and make a positive contribution to the balance sheet of the Denel Group. I want to thank the members of the Board for the continued support and commitment to the principles of good governance. We are supported by an innovative and resourceful management team and a strong and committed workforce.

The exit of our former partner, SAAB, provided us with the opportunity to rebrand the company as Denel Aerostructures. I am convinced that the rejuvenated company will continue to build its solid reputation as a major player in the aerostructures and aviation sectors in South Africa, on the continent of Africa and in the rest of the world.

The Board has functioned well, meeting regularly and attending to all material issues placed before it and taking strategic decisions affecting the future of the company. The Audit and Risk Committee and the Personnel, Remuneration and Transformation Committee met on a regular basis.

The Board, together with management reviewed strategic and operational risks to the company and took the necessary actions to mitigate major risks and ensure compliance with the King III principles of corporate governance. Going forward we will take steps to introduce a process of self-review of the activities of the Board and its committees.

We appreciate the support provided to the company by both the Board and Executive of Denel SOC. Our thanks also go to our shareholder, the Minister of Public Enterprises, Malusi Gigaba, and his department for their continued interest in the business of DAe.

The announcement by the Minister of Finance near the end of the financial year that an amount of R700 million has been allocated to support the recapitalisation of DAe is proof of the confidence of the shareholder in the future and potential of the company.

The South African aerospace industry finds itself on the brink of a period of high growth as increasing attention is focused on its potential to create employment and wealth, stimulate high-end manufacturing and grow new opportunities for downstream enterprises.

Denel Aerostructures intends to be an active participant and a major player in this exciting new phase.

Dr. G C Cruywagen
Chairman of the Board



BOARD OF DIRECTORS

DR GC CRUYWAGEN (55)
MSC, PMD, FIRM (SA), RISK MANAGEMENT DIPLOMA, CERTIFICATE-ADVANCED SECURITY MANAGEMENT, PHD

CHAIRMAN

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Group audit and risk committee member, chairman of PMP, non-executive director of Denel Dynamics.

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

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

Appointed to the board on 4 October 2010.

MR F MHLONTLO (42)

BCOM, BCOMPT (HONS), CA (SA) GROUP FINANCIAL DIRECTOR

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Permanent invitee of the group audit and risk, as well as the personnel and remuneration committees, non-executive director of PMP, Denel Properties and RDM and Trustee of Denel Post Retirement Trust.

OTHER DIRECTORSHIPS: Former audit partner and director of one of the big four audit firms.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit process and strategy formulation.

Appointed to the board on 1 November 2008.

MR JV MORRIS (42)
BSC (HONS) (PSYCHOLOGY AND SOCIOLOGY), MSC (AGRICULTURAL ECONOMICS)

GROUP EXECUTIVE: STRATEGY AND COMMERCIAL

DENEL BOARD COMMITTEE MEMBERSHIPS: Non-executive director of DPS.

OTHER DIRECTORSHIPS: Served in various positions in the Department of Trade and Industry, Trade and Investment South Africa, Decillion Capital and the Department of Public Enterprises, as deputy director-general: manufacturing.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategy development and execution, corporate restructuring, mergers and acquisitions, economic policy and public sector knowledge.

Appointed to the to board on 26 May 2009.

MS B PALEDI (40)
BA, LLB, LLM (USA) INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

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

Appointed to the board on 20 July 2011.

MR C GROESBEEK (45)
M.SC. MECHANICAL ENGINEERING AERONAUTICS, MBA

INDEPENDENT NON-EXECUTIVE DIRECTOR

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: None

OTHER DIRECTORSHIPS: Chief Executive Officer i3 Africa, CHAIRMAN Revax Mining

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Cornelis has keen insight in to the various global factors, drivers, environmental influences, national competencies required as well as the numerous contractual pitfalls that companies are subjected to in the globalised aerospace and telecommunications environments, and acts as strategic advisor for development of future roadmaps for executive teams of companies in these sectors.

Appointed to the board on 26 July 2009.

MR I DOCKRAT (42)
MBA, CERTIFICATE IN PROGRAMME MANAGEMENT, NDIP ELECTRONICS ENGINEERING

CHIEF EXECUTIVE OFFICER DAE

DENEL BOARD AND BOARD COMMITTEE MEMBERSHIPS: Previously Chief Executive Officer of Denel Aviation, non-executive director Turbomeca Africa and Denel Personnel Services.

OTHER DIRECTORSHIPS: Former positions include Chief Executive Officer of Wesgro, General Manager at TISA and Project Manager at Armscor.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic leadership, business management, programme management and turnaround management.

Appointed to the executive committee on 1 March 2010.

MS C M SLABBERT (30)
BCOM, BCOMPT (HONS)(CTA), CA (SA), ADVANCED EXECUTIVE DEVELOPMENT PROGRAMME

CHIEF FINANCIAL OFFICER DAE

DENEL BOARD AND COMMITTEE MEMBERSHIPS: Chief Financial Officer DAe, Formerly on the Audit & Risk Committee of Denel Training Academy

OTHER DIRECTORSHIPS: None

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 executive committee on 5 October 2010.



3. BUSINESS UNIT REPORTS AND CONTRIBUTION FROM THE CEO



CONTRIBUTION FROM THE CEO

CONTRIBUTION FROM THE CHIEF EXECUTIVE OFFICER

For centuries humans have watched the birds and desired the ability to fly. This has been possible for just over a hundred years now. The journey to human flight is an extraordinary journey of science and technology but also of passion and adventure and continues to be one of the most magical experiences available to us. The theme of this Annual Report reflects our pride, passion and commitment to being associated with the business of making things fly.

The 2011/12 financial year produced a number of significant highlights which contributed to the on-going turnaround of Denel Aerostructures and provided a firm basis for a sustainable future for the company.

Among these are:

- The negotiation of a restructured agreement with Airbus Military on the work packages done by Denel Aerostructures for the Airbus A400M programme.
- The announcement of a R700m recapitalisation of the business by the Minister of Finance.
- A continued commitment to operational excellence which included restructuring, improved utilisation of floor space and streamlined production and output.
- A name change to Denel Aerostructures and the relaunch of the company as South Africa's leading manufacturer of advanced aircraft structures and a valued participant in international programmes.

The turnaround in the business of Denel Aerostructures takes place against the background of a global economic downturn which had a very specific and severe impact on both the defence and civilian aerospace markets.

Despite the economic slowdown there remains a strong potential for growth in both the defence and civilian markets that can provide a number of new business prospects for the company. This will enable Denel Aerostructures to further improve its financial performance and reduce its historic losses to the point where a return to profitability over the medium term can be safely projected.

But, more importantly, the company has now entrenched itself as a global player in the aerostructures industry and a reliable Tier 1 and 2 supplier to the world's leading original equipment manufacturers.

The company's improved performance can be attributed to the successful implementation of its turnaround strategy which cuts across all aspects of the business:

- Sound corporate governance and financial controls.
- Restructuring of the Airbus A400M contracts;
- Achieving operational excellence;
- Industrial restructuring;
- Investment in people and transformation;
- Contributions to the National Aerospace Sector Development Plan and
- Growing new markets and revenue

SOUND CORPORATE GOVERNANCE AND FINANCIAL CONTROLS

The company can report improvement in its financial performance with the net loss improving to (R78) million from (R328) million in March 2010. The cash utilised decreased to R66 million in the year under review from more than R 300 million in March 2010. The balance sheet came under further pressure because of the decision by SAAB to terminate its partnership with Denel and exit the business. Towards the end of the financial year came the

“ The Company has now enhanced itself as a global player in the Aerostructures industry.

Ismail Dockrat
Chief Executive Officer



welcome announcement by the Minister of Finance in his Annual Budget Speech that Denel Aerostructures will be recapitalised to an amount of R700 million.

These funds, which will be disbursed in the 2012/2013 financial year, will significantly strengthen the company's balance sheet and enable management to complete the implementation of the turnaround strategy earlier than originally anticipated.

The company received an unqualified audit report from the External Auditors for the second successive year which speaks volumes for the quality of financial management and controls.

RELATIONSHIP WITH AIRBUS MILITARY

The work packages that DAe delivers for the production of the Airbus A400M are the core business activities of the company. A strategic decision was taken to scale the company's capabilities in line with the A400M technology requirements and to leverage this as the basis for future expansion in the business.

A major milestone in the relationship with Airbus Military was achieved with the signing of a term sheet agreement between the two companies in November 2011 following a constructive process of negotiations. This agreement contains improved legal conditions as well as more equitable terms and prices that will benefit DAe.

A formal agreement will be signed in the 2012/13 financial year providing the company with a significant degree of stability on the future of the relationship.

Denel Aerostructures is the only Tier 1 manufacturer on the Airbus A400M outside Europe and is responsible for the design, industrialisation and production of critical parts such as the Wing-to-Fuselage Fairing and the Top Shells.

The quality of design, engineering and workmanship performed by DAe has been repeatedly praised by the senior leadership at Airbus and it is not inconceivable that the company will become responsible for more work packages in the future.

As the A400M enters its serial production phase DAe will ramp up its manufacturing schedules from eight ship sets in 2013 to, eventually, 24 – two per month – from 2015 onwards for the duration of the programme.

ACHIEVING OPERATIONAL EXCELLENCE

The achievements on the A400M are supplemented by a number of other production milestones reached during the past financial year. The 100th empennage for the Gulfstream G150 was delivered on schedule; the company successfully completed its contracts for the manufacturing of key components such as main rotor heads and blades for the AgustaWestland A109 LUH helicopter as well as Main Landing Gear and fuselage units for the SAAB Gripen programme.

The solid reputation earned by DAe for the quality of its workmanship and its commitment to delivery on time has raised its profile among a wide range of major participants in the global aerospace industry.

I am confident that we will, in the coming financial year, be able to build on this solid reputation, expand our reach and secure more business from a number of original equipment manufacturers.

INDUSTRIAL RESTRUCTURING

During the year under review Denel Aerostructures took important steps to restructure its operations and streamline its engineering and manufacturing processes. We made progress in reducing the company's rental footprint from 74 000 m² to 25 000 m² and bringing the entire operations under one roof. This major move of staff, equipment and processes will be completed by the end of the 2012 calendar year – without the company missing a single deadline to date or compromising on the quality of our workmanship. In line with the new strategic vision of the Denel Group, DAe also proceeded with the streamlining of management functions, improved controls over our supply chain and the sharing of non-core services with other entities in the group. Senior management and the company's dedicated and highly committed staff must be congratulated for their efforts towards the reorganisation of our business which will, no doubt, contribute to the long-term viability of the company.

INVESTMENT IN PEOPLE AND TRANSFORMATION

The quality of the people working for DAe remains the company's most important asset. DAe is fortunate to be able to retain a highly-skilled workforce that enables us to compete effectively in a competitive high-technology environment.

Although we are making progress with our B-BBEE profile, transformation remains a challenge that will require further

initiatives in the coming year. We also intend to support the sustained growth of small and medium enterprises through our progressive supplier development programme.

I have no doubt that the tangible improvements in our financial position and the successful delivery on key milestones have contributed to a strengthening of morale in the company and the growth of a strong sense of commitment and esprit de corps among our work force.

CONTRIBUTIONS TO THE NATIONAL AEROSPACE SECTOR DEVELOPMENT PLAN

We place a high value on our relationship with our shareholder, as represented by the Department of Public Enterprises. I also want to thank the Chairman and Board of Denel Aerostructures as well as senior management in Denel SOC for their continued commitment during the company's most challenging years. We are looking forward to a productive period when DAe will not only make a positive contribution to the balance sheet of the group, but also fulfil its immense potential as a premier high-tech manufacturing company in the broader economy.

Through its activities Denel wants to contribute to the government's broad developmental objectives to grow an economy that will address unemployment and poverty and raise the skills and educational levels of society.

The company fully supports the Aerospace Sector Development Plan designed to grow the industry in coming years and we are keenly enthusiastic about our potential to be at the core of a future Aerotropolis, as envisaged by the Ekurhuleni Metropolitan Municipality and the Gauteng Provincial Government.

GROWING NEW MARKETS AND REVENUE

Denel Aerostructures has strengthened its business development capacity with key new appointments as well as a thorough overhaul of its bidroom processes. This will place the company in an advantageous position to secure new orders and penetrate new markets.

We intend to leverage our position in the Airbus supplier network to engage with other global OEMs such as Boeing, Bombardier, Embraer and Gulfstream.

South Africa's strengthening international profile, including its membership of the BRICS alliance, should open up further opportunities for strategic partnerships and the company will remain closely aligned to the Government's fleet procurement

programmes for SAA and SA Express to benefit from industrial participation commitments.

KEY CHALLENGES

Although great progress has been made with the turnaround of the company, there remain various risks and challenges that need to be addressed to ensure sustainability. Among these are:

- Maturing of the industrial capacity to deliver on-time, quality and cost-effective products to meet highly-exacting global standards;
- Aggressively pursuing improvements in productivity and efficiencies to remain globally competitive;
- Securing new business to ensure the long-term viability of the company;
- Strengthening the human resource base and skills at all levels of the organisation;
- Actively advancing transformation and employment equity – especially at middle management and technical levels.

FUTURE PERSPECTIVE

I am confident that Denel Aerostructures has turned a critical corner and that we will continue with the sustained turnaround of the company and achieve viability in the near future.

South Africa's strengthened profile on the continent of Africa and as part of the BRICS group of emerging countries will open up exciting new opportunities for the company in the international environment.

Denel Aerostructures has established a firm foothold as a reliable, top tier supplier to global manufacturers and we have the proven track record and capacity to expand our operations beyond the defence environment into the civilian industry.

Despite the current slump in the global economy I am confident about the long-term future of the aviation and aerospace industries. South Africa has the capabilities and the ingenuity to grow its own aerospace industry and become a global leader in niche manufacturing sectors. Denel Aerostructures intends to be a valuable participant and innovative leader in such initiatives.



Ismail Dockrat
CEO Denel Aerostructures

OPERATIONS

Arguably one of the leading aerospace companies in Africa, DAe is associated with the best OEM's in the global industry and expands its capabilities to be recognised as one of the most reliable suppliers.

DAe invests extensively to establish modernised, world-class facilities for high-end aerostructures machining, composites, assembly and special processes. The Operations department is ensuring optimal alignment and integration beginning with product industrialization, supply chain management through to aerostructures production, assembly and delivery to customers.

Driving cost competitive-, on-time and on-quality deliveries to our customers remains at the heart of DAe operations. Our Sustainable Transformation Effectiveness Project (STEP) continues to serve as Operations' vehicle to drive and facilitate continuous improvement initiatives in line with DAe's transformation and turnaround strategy, focusing on reducing operational costs, and improving efficiencies and production throughput.

DAe is located at the core of the country's largest aerospace cluster,

located next to OR Tambo International airport in Johannesburg, Africa's largest and busiest airport. This hub has already attracted various aviation companies as well as a growing number of supply and partner industries. A strategic industrial and economic asset for South Africa and a primary contributor to the growth of the aerospace sector and high-tech manufacturing on the continent -DAe is ideally positioned to be a strategic aerospace design and manufacturing partner.

Ekurhuleni's strategic plans to develop an Aerotropolis around the airport will provide momentum to the growth of the aerospace sector, which has been singled out by government for its ability to provide the country with long-term advanced manufacturing capabilities.

DAe is consolidating its operations in a move that will improve efficiency and cut costs significantly. The move will see the company's entire production process brought under one roof at Denel's Kempton Park campus. By cutting down on our production costs and streamlining the workflow the consolidation will contribute to the long-term sustainability of the company.



“ DAe is one of a select few manufacturers, outside of Europe, responsible for the design and manufacturing of structural parts fitted to the versatile Airbus A400M.

Theo Kleynhans
Chief Operations Officer

DAe is one of a select few manufacturers, outside of Europe, responsible for the design and manufacturing of structural parts fitted to the versatile Airbus A400M. It is responsible for:

- **The Wing to Fuselage Fairing** – 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 WFF is made up of 86 composite panels and doors and some 1100 metallic sub-structural parts and is designed for ease of systems installation and maintenance.
- **The Top Shells** – made up of more than 1100 parts consisting of a large machined skin, engineered out of an aluminium alloy. Each aircraft is fitted with two top shells, positioned in front of, and behind the wings where it is joined to the fuselage. The 900 system brackets support the vital electric and electronic wiring, hot air and heat exchange piping as well as the aircraft's life-rafts.

Over the past five years DAe developed advanced manufacturing technologies to design and produce ultra-light weight structures, through thin-wall aluminium machining and assembly and fibrous/carbon composite layups and curing. In addition to the AS9100 (Rec C) accreditation, DAe holds NADCAP accreditations for a number of special processes including the following key production capabilities:

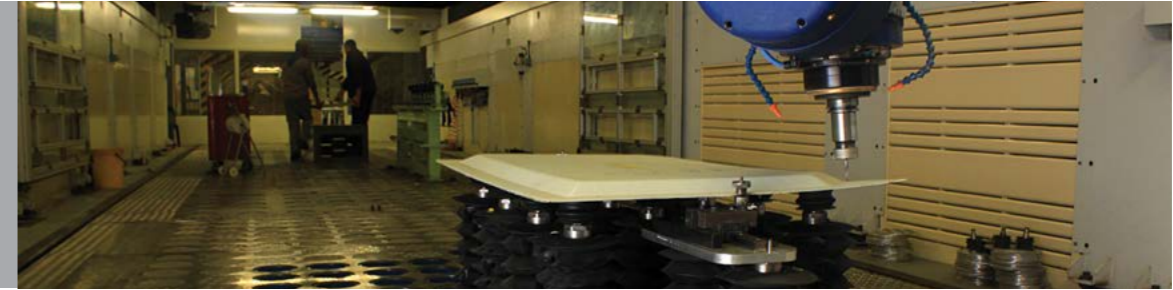
MACHINING

- 5 Axis High Speed Machining
- 3 Axis machining (Long bed)
- Jig Boring
- CMM inspection



COMPOSITES

- Autoclaves up to 13m
- 5 Axis CNC routing up to 16m
- Laser Position Ply Layup
- NDT (Ultrasonic and X Ray)



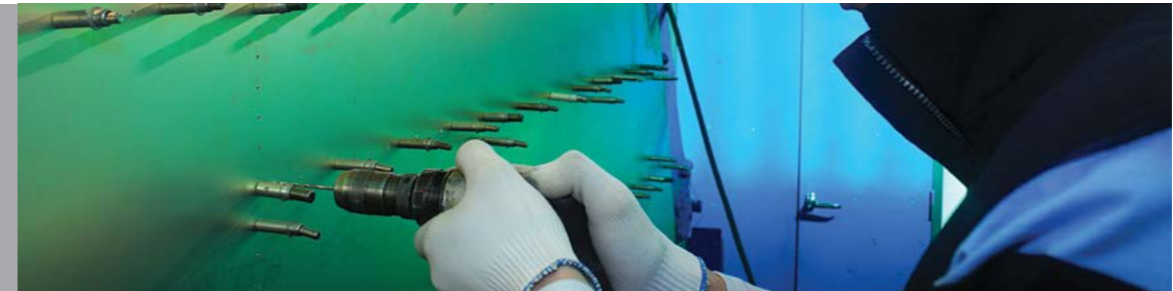
SHEET METAL

- Fluid Cell Press
- 5-Axis CNC router and Drilling
- Stretch Forming
- Press and Roll Forming



ASSEMBLY

- Semi-Automated C Frame Riveting



NADCAP SPECIAL PROCESSES

- Non Destructive Testing
- Heat treatment
- Chemical Processing
- Surface Enhancement
- Composites
- Laser Inspection



MANUFACTURE ENGINEERING

- Tool design (CATIA V4 & V5)
- NC programming
- Part Industrialisation
- Materials Technology



FINANCE

KEY HIGHLIGHTS FOR THE YEAR

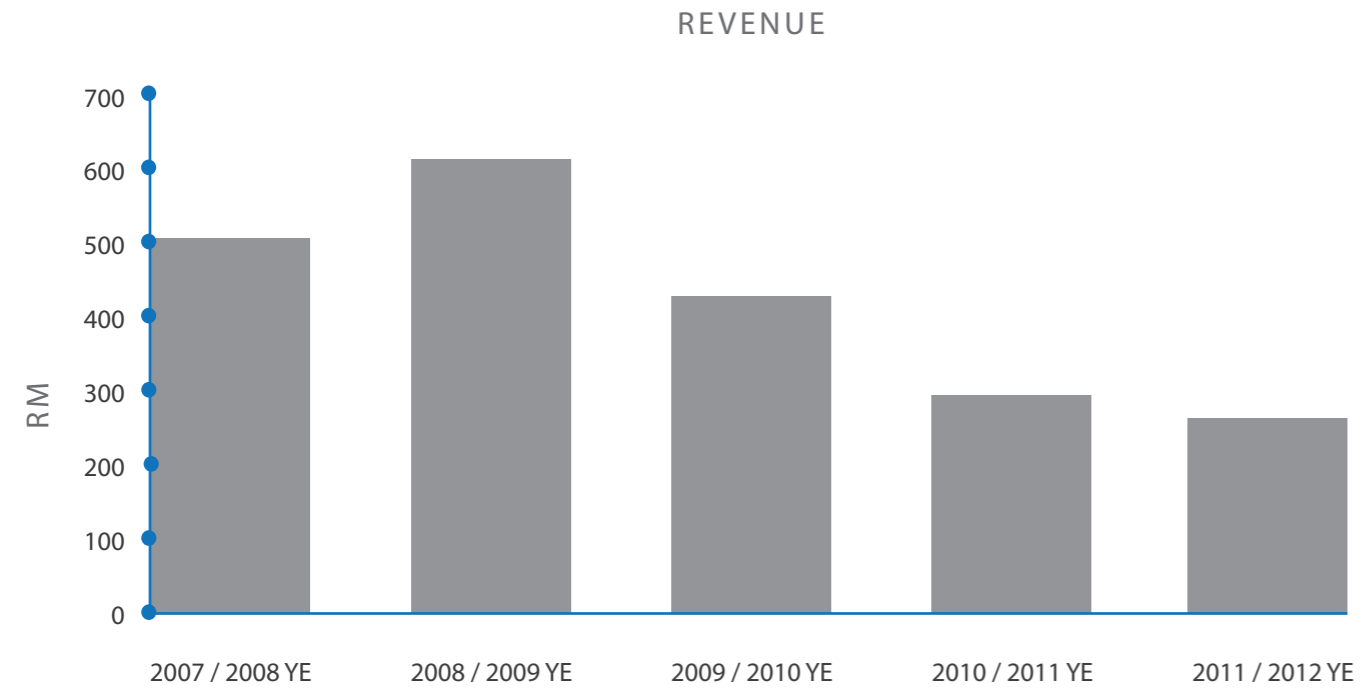
- A Recapitalisation of R700m for Denel Aerostructures has been announced by the Finance Minister in his budget speech in February 2012.
- Denel Aerostructures (DAe) has undertaken fundamental restructuring during the past two years which has resulted in improved financial and delivery performance, and contracted key performance indicators being met.
- DAe has successfully renegotiated its Airbus A400M work packages, subject to formal contract amendments. The A400M programme now supports a viable and sustainable business case for the Aerostructures entity in the long term.
- Airbus A400M deliveries: Engineering/Certification and production on-time and on-quality. Airbus praised DAe as one of its most reliable and technically competent A400M suppliers.
- Rental footprint reduction by more than 60% (ongoing) and headcount restructuring completed to A400M focused capability.
- Substantially reduced reported audit queries, obtained an unqualified (2011/12) audit opinion and improved cash control.

“ DAe has successfully renegotiated its Airbus A400M work packages. The A400M programme now supports a viable and sustainable business.

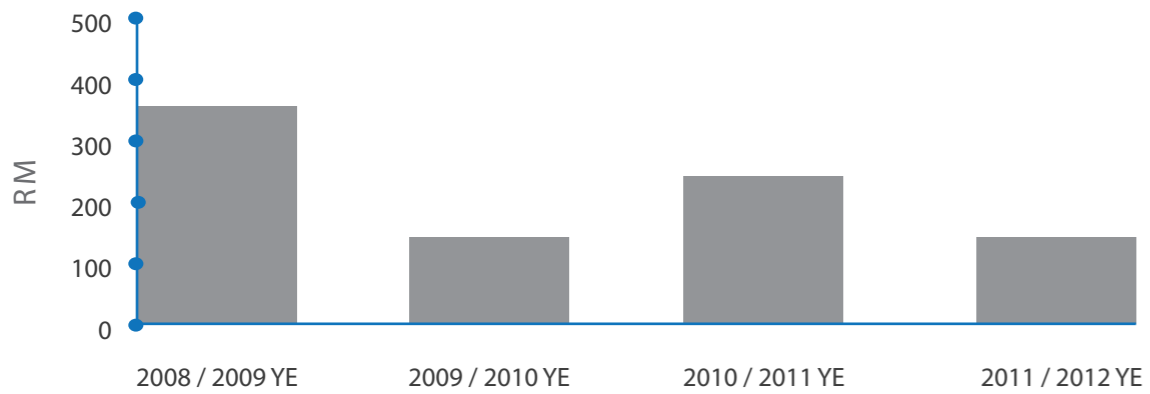
Christine Slabbert
Chief Financial Officer



REVENUE
7% - R260m

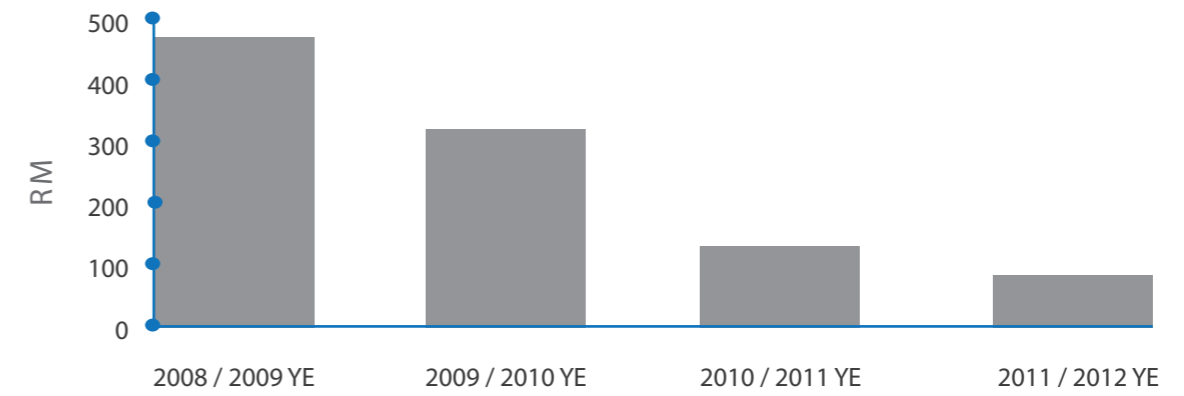


OPERATING COST
18% - R125m



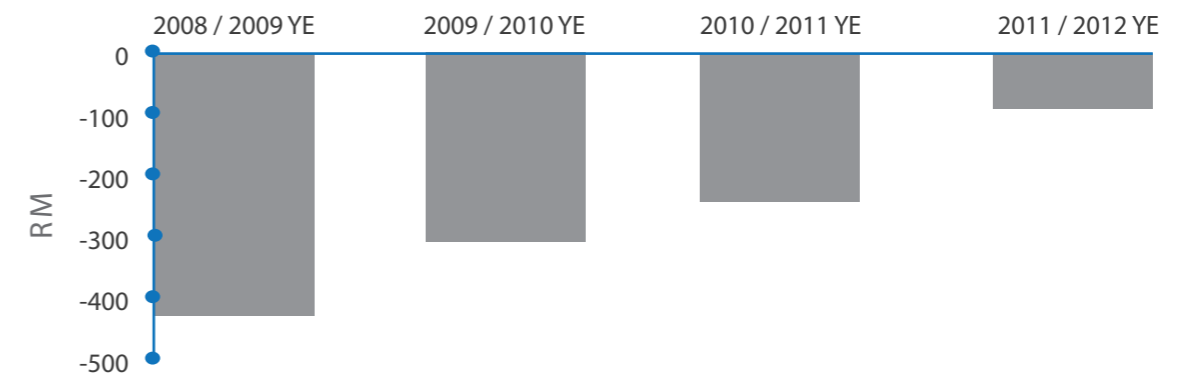
CASH BEFORE FINANCING ACTIVITIES

CASH BEFORE FINANCING ACTIVITIES
38% - R65m

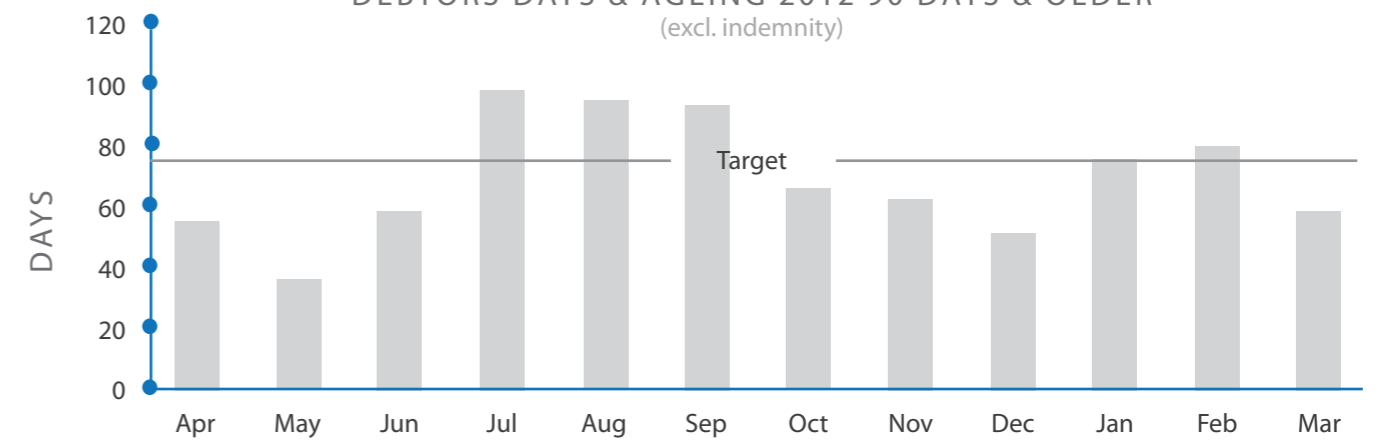


NETT PROFIT / LOSS PERFORMANCE

NET LOSS POSTED
67% - R78m



DEBTORS DAYS & AGEING 2012 90 DAYS & OLDER
(excl. indemnity)



Debtors Days YTD March 2012

HUMAN RESOURCES

Denel Aerostructures (DAe) has developed HR strategies intended to ensure that the company's business objectives and plans are achieved. Aerostructures has undergone huge organisational changes over the past year.

- Part of DAe's key achievements were related to transformation which included receiving a level 4 BBBEE contribution certificate and transformation score of 78.4% for implementation of its transformation plans which is second in the Denel Group for the second consecutive year;
- 37 Newly qualified artisans were trained during the year with trades in aircraft structures; composites; turner machinist; tool making and aircraft spray-painting.
- DAe supports youth skills development and stimulating an interest in aerospace technology with a social programme in collaboration with Kids Haven.

DEVELOPING SKILLS

EMPLOYEE SKILLS DEVELOPMENT INITIATIVES

DAe has spent a total of R4, 06m on skills development and learning programmes for the current financial year.

LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

All DAe Managers have undergone intensive psychometric assessments and have received individual reports which outline development areas. Personal mastery workshops have also been conducted. The Unisa SBL Denel leadership and management development programmes were launched in June 2011, as part of yet another method of closing the leadership gaps identified.

SUCCESSION PLANNING

DAe developed a succession planning framework (called 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.

“ DAe has spent a total of R4m on skills development and learning programmes for the current financial year.

Natasha Davies
Executive Manager, Human Resources



EMPLOYEE STUDY BURSARIES

DAe continues to grant study loans to employees who wish to further their studies in related fields and to enhance performance in their jobs.

SOURCING AND SUPPLY TRAINING

A full skills assessment was carried out by CIPS (The Chartered Institute of Purchasing & Supply) and TKB (Tirisano Ka Bato training consultants) to assess the training requirements for the procurement department and the stores personnel respectively.

ARTISAN TRAINING

DAe trained 45 apprentices in the past year which will impact positively on the South African economy by providing highly sought-after artisans for the industry.

TRANSFORMATION COMPANIES B-BBEE PERFORMANCE 2010/11 VS. 2011/12

This is the third year that DAe has been evaluated by an external agent on B-BBEE. The company's target was to achieve an overall level 4 score for the 2011/12 period.

IMPROVING ORGANISATIONAL CLIMATE

The entities' climate improvement plans are evaluated for performance annually by an independent consulting firm. The overall score for this reporting period is 78% which is 4% better than the previous score of 74%.



ENGINEERING

Denel Aerostructures (DAe) maintains a highly skilled engineering contingent of approximately 60 permanent employees, supported by fixed term contractors during times of peak loading.

MAIN PROGRAM ACTIVITIES

During the 2012 financial year approximately two thirds of DAe's development work related to its activities on the Airbus A400M program. DAe is contracted as design authority for two main work packages on the Airbus A400M, namely the Wing-to-Fuselage Fairing (WFF) and the Centre fuselage's Topshells. While A400M design activities for the 2012 financial year was mainly focused on embodiment of several customer modifications into the second baseline design, stress activities were strategically focused towards DAe's contractual obligations to support Airbus' aircraft Type Certification application to the European Airworthiness authorities (EASA). DAe successfully managed to supply all Stress Dossiers required on both its work packages for Type Certification by the first quarter of 2012, in full compliance to Airbus requirements.

DAe's strong engineering performance on the Airbus A400M has resulted in several written accolades from Airbus and public acknowledgements at Airbus media events over the past year. Denel Aerostructures also provides

engineering support to its sister company Denel Aviation on its Rooivalk attack helicopter program in terms of design office and structural analysis support.

SKILLS DEVELOPMENT

DAe has a well-structured incubation program where junior engineers and technicians are allocated to engineering tasks under direct mentorship of senior engineers in a range of specialist fields. This allows South African engineers to gain the pre-requisite years of experience required by international Original Equipment Manufacturers (OEMs) such as Airbus in order to be accredited to sign off on engineering deliverables within their OEM system.

TECHNOLOGY DEVELOPMENT

DAe has established a collaboration network with the Council of Scientific and Industrial Research (CSIR) and the University of the Witwatersrand (Wits) on research and technology development. The collaboration has the aim for academic institutions and the CSIR to focus on blue sky and basic technology research (Technology Readiness Level TRL 1 to 4, while DAe will focus on proof of concept and product- and process technologies (TRL levels TRL 5 – TRL 9) that strengthens South Africa's industrial capabilities in Aerostructures advanced manufacturing.

“ DAe is contracted as design authority for two main work packages on the Airbus A400M, namely the Wing-to-Fuselage Fairing (WFF) and the Centre fuselage's Topshells.

Willie van der Walt
Executive Manager, Engineering



BUSINESS DEVELOPMENT

BUSINESS DEVELOPMENT OBJECTIVES

Based on the DAe's Vision, Mission and overall strategic relevance, Business Development has established plans and objectives aimed at achieving the following:

- Positioning the organisation as a Tier 1 and Tier 2 supplier within the International Aerospace supply chain
- Presenting the organisation as a reliable link in the global aerospace supply chain
- Positioning the organisation as a catalyst for Aerospace Advanced Manufacturing in the local and international markets.
- Focus on people in effort to improve organisation climate through entrenching a culture that is derived from values, a culture that embraces diversity and participation.

In the 2011/2012 financial year, the Business Development team has managed to embark on initiatives in support of the above objectives.

INTERNAL STAKEHOLDER ENGAGEMENT

INFORMATION, COMMUNICATION AND PARTICIPATION

IMBIZO'S

The CEO's quarterly Imbizo initiative was conducted with success. Due to the significant changes within Denel Aerostructures, this year saw much value being drawn from the Imbizo's. During watershed moments of the exit of SAAB, the company name change and the establishment of new values, Imbizo's were convened and used to communicate vital information, where employees were afforded opportunities to publicly express their views, concerns and question.

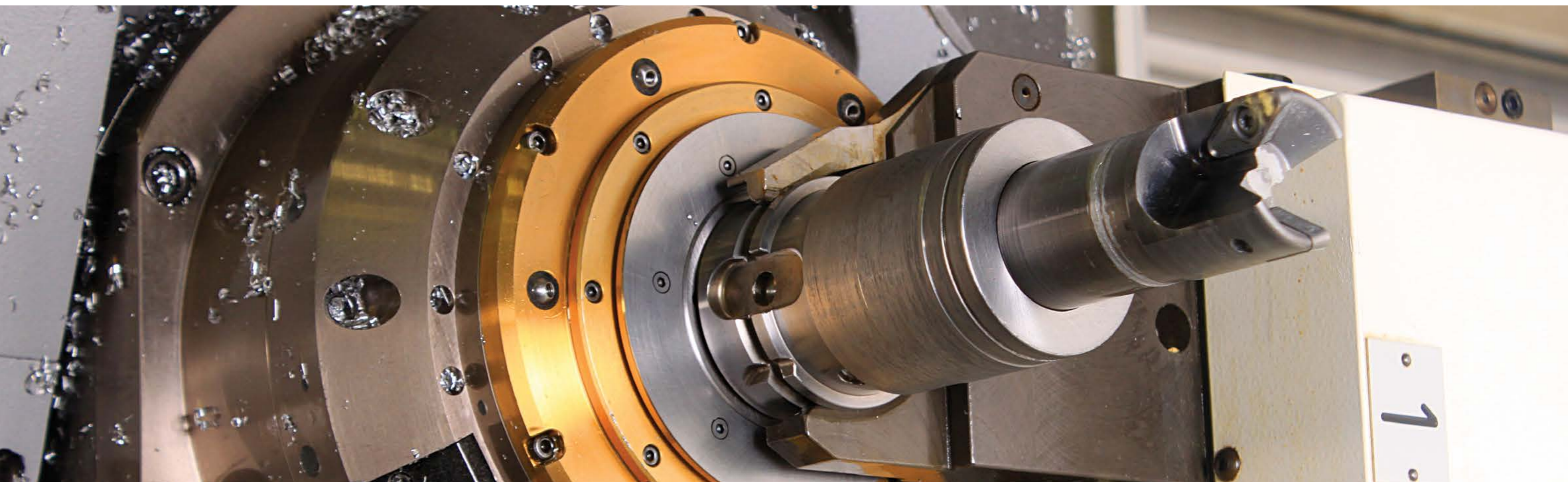
LEKGOTLA

The Lekgotla initiatives, aimed at bringing together the top leadership, organised labour and selected shop floor employees, were held with success. Discussions on strategy, key business challenges and company performance were held and much value was drawn from having perspectives and views from across all levels of leadership within the organisation.



“ At Denel Aerostructures we “Make It Fly” internally and externally.

Colin Singarum
Executive Manager, Business Development



INTERNAL COMMUNIQUÉ:

With the reliance on the IT infrastructure and existing communication forums and media (notice boards and meetings), communiqués on processes, successes, forthcoming events, HR matters and feedback were sent out daily or as required to maximize information dissemination within DAe.

CAMPAIGNS FOR ACTIVATION AND PARTICIPATION

In an effort to increase employee awareness and appreciation within DAe, the Business Development team embarked on a strategy of participative celebrations. This saw a wave of activation sweeping across all employees regardless of their race, skills, character or role within the company. The strategy pivoted on celebrating every milestone achievement of DAe, including national or international initiative. This initiative thrives on harnessing the excitement, enthusiasm and jubilation that arose from everyone partaking in preparation, planning and execution of the celebratory events.

The following national and international initiatives were supported and celebrated with much vigor and success:

- CELL C – Bring a Girl Child to Work
- Mandela 67 minutes
- Women's day
- 16 Days of activism against women and children
- World AIDS Day
- Cancer Shaveathon
- Casual Day
- Valentine's Day

THE FOLLOWING INTERNAL INITIATIVES WERE SUPPORTED AND CELEBRATED WITH MUCH VIGOR AND SUCCESS:

- CEO Hands On Campaign
- DAe on Diversity Campaign
- Name Change Campaign
- DAe Values Campaign

CELEBRATIONS FOR INTERNAL STAKEHOLDER ENGAGEMENT

In support of the numerous initiatives and campaigns, celebratory events were convened for most of the initiatives. The following apply:

- Launch of the new name and values
- World AIDS Day
- December Year-End function
- Women's Day
- 600th Ship-set and handover off the Gripen work packages

EXTERNAL STAKEHOLDER ENGAGEMENT

Various initiatives and activities were launched by the Business Development team in order to communicate the message of DAe's capabilities in manufacturing and engineering within the Aerospace Industry and to other external stakeholders.

The following public relation initiatives and events were hosted and successfully completed by the team. For a full description of the activities please refer to page 47 of the Sustainability Report.

ACCESS TO MARKET INFORMATION AND INTELLIGENCE

In an effort to increase DAe's understanding and knowledge of the market, various exhibitions were attended by the Business Development team, accompanied by the CEO and at times, the Group CEO and members of the DCO Business Development Forum.

The following valuable exhibitions were attended:

- Malaysia Air show
- Farnborough Air show

QUALITY

- During May 2012, DAe was successfully audited against the AS9100 Revision "C" requirements.
- DAe holds 5 accreditations for Special Processes from Nadcap (National Aerospace and Defense Contractors Accreditation Program). These are in the following disciplines:
 - 1) Heat Treatment (Aluminum)
 - 2) Surface Enhancement (Shot Peening)
 - 3) Non Destructive Testing (Magnetic and Fluorescent)
 - 4) Chemical Conversion Coating (Surface Treatments)
 - 5) Composites
- The A400M program is progressing well and during August 2012 DAe will be delivering the MSN 12 for both the Wing Fuselage Fairing and the Top Shells to Airbus. The feedback from Airbus is that DAe ranks among the top echelons of all its suppliers from an "On time" and "On quality" perspective.
- DAe has successfully completed 603 high quality deliveries to SAAB Sweden for the Gripen Fighter Aircraft. These deliveries consisted of NATO Pylons, Main Landing Gear Structural Assemblies and Rear fuse Structural Assemblies. The program has now been completed and the Jigs are being returned to Sweden.
- "First Time Pass" tool: This is a Quality tool being developed to measure throughput and to identify problem areas, parts and processes. Monitoring will be done by Quality and the ownership to resolve problems and to create Root cause corrective actions will be within the control of the facility managers.

“ DAe has successfully completed 603 high quality deliveries to SAAB in Sweden.

Chris Hughes
Executive Manager, Quality

4. SUSTAINABILITY REPORT

1 ABOUT THIS REPORT

This sustainability report is aimed at providing 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 demonstrates 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 aims to present a balanced view and disclose relevant and material information to stakeholders.

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





2 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 a Tier 1 and 2 supplier 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)

BBBEE rating: Level 4

STRATEGIC IMPERATIVES:

In reviewing the DPE strategic intent in so far as it relates 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. In particular the following is worth noting:

- Towards “Rationalisation of the business” – DAe has started a “scale to A400M capabilities” strategy and is implementing an extensive “A2 footprint consolidation” project
- Towards “Limited dependence on defence”, >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.
- Towards “Skills development and transformation” – DAe has improved its BBBEE 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 New Growth Path (NGP) and Industrial Policy Action Plan (IPAP2) mandate, a movement to a knowledgebased economy to obtain 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 generation of industrial technology and development of technical skills to drive economic development (aerospace has an economic impact multiplier effect of 4).
- IPAP2 priority sectors include advanced materials and aerospace which has the potential to develop long term advanced capabilities in South Africa.
- The IPAP2 Aerospace Sector Development Plan (SDP) is to be finalised soon by DTI/DST and industry (AMD), with the establishment of a Joint Steering Committee

for Aerospace as a key next step.

- Government intends to develop proposals to enhance access to concessional industrial financing for investment in IPAP.
- Procurement legislation regulations and practices enable the use of large and strategic aircraft ‘fleet’ procurements to be targeted towards local advanced manufacturing industrial participation.

RESTRUCTURING:

Denel Aerostructures (DAe) has undertaken fundamental restructuring during the past two years which has resulted in improved financial and delivery performance, and contracted key performance indicators being met. DAe has successfully renegotiated its A400M programme, subject to formal contract amendments to be concluded in 2012/2013. This now supports a viable and sustainable business case for the company in the long term.

Industrial restructuring is on-going to reduce rental costs and improve productivity. Interventions are underway to achieve operational excellence, a high performance culture and continually improve commercial competitiveness. The strategy going forward is to scale capabilities to A400M technical requirements and to simultaneously secure new orders aligned to such A400M technologies and capabilities.



Within the context of the New Growth Path (NGP) and Industrial Policy Action Plan (IPAP2), DAe must fulfil its strategic responsibility as a state owned company to mature and deepen the world class Aerostructures advanced manufacturing capability in South Africa, integrated into the global Aerostructures supply chain. 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 breakeven in 2016/17.

3 STAKEHOLDER'S ENGAGEMENT

INTERNAL

DAe has undergone significant changes within the past year. In order to maintain and build employee and team morale, an internal communication strategy was defined and successfully implemented. The strategy was a tool for binding the organisation, enhancing employee morale, promoting transparency, highlighting the team's diversity and reducing animosity amongst colleagues and departments. The strategy was a vital link that enjoined everyone to be aligned to the company's Mission and Vision, whilst supporting and living the company's values. By supporting the internal communication strategy, DAe was able to:

- Sensitise employees on cultural diversity and social upliftment initiatives
 - » Internal initiatives such as Kid's Haven partnership, where employees gave their time, not only educate the employees about their local community but the shelter and the children benefit from the employee's time. On-going initiatives with the NGO support the company's drive to be a diverse and proudly South African company.
 - » DAe on Diversity – DAe is truly a proudly South African company as its workforce houses all 11 languages, and demographics. In order to create a sharing and respectful environment, DAe launched the campaign "DAe on Diversity" which runs every quarter. The campaign creates awareness about the different cultures within DAe and encourages employees to speak all languages with each other. The campaign is supported by Executive Management as they do walkabouts and spend time being taught the language and culture by the shop floor employees.
 - » Education of the youth – DAe's work force is diverse and is represented by 49% youth. DAe wants to encourage the youth to be more active, involved in day to day decisions as well as to share their passion and energy with the company. A platform for the youth is in the process of being developed, called VUYO – Voice for the youth, by the youth.



- Ensure that knowledge-sharing and communication processes are part of the daily workflow across all functions of the company.
 - » **Imbizo's:** The CEO calls an Imbizo on a quarterly basis or when required to keep employees abreast of strategic matters, performance progress and operational issues. Due to the extraordinary amount of change in the company, the CEO provides restructuring and transformation progress feedback to all the employees.
 - » **Lekgotlas:** Top 50 managers, labour representatives and identified shop floor workers meet on a quarterly basis to discuss the business strategy, opportunities and challenges that lie ahead for the business. The meeting also allows for team building and cross – departmental communication.
 - » **Milestone achievements:** DAe has had significant milestone achievements in 2011/2012. In acknowledgement that it takes cross functional teams to achieve these milestones, time is set aside in order to recognise all who were involved in a specific project. These events see a team coming together and celebrating their and the company's success. An example of an achievement was the delivery of the 100th Rear Fuselage, which saw the SAAF's arrival at the facility. Squadron 85 and 2 Squadron received a hands on facility tour. DAe employees were treated with a Gripen Fly Over and a speech by Major Catherine Labuschagne – the first women to fly a Gripen solo.
 - » **Internal communiqué:** Communication is sent out on a daily basis regarding processes, competitions, successes, HR matters, upcoming events, employee feedback etc.
- Drive ownership and shared engagement with DAe employees.
 - » DAe has embarked on a name change in 2011. An important aspect in change management is to have employees involved with the change, thus driving ownership. DAe held a competition amongst employees and encouraged all to submit proposals for a new company name. Over 400 entries were received which were categorised and short listed. These proposals were submitted to the branding agency and consequently the Board.

- » In formulating the company's values, DAe engaged all employees to share core values that they believe should be part of the company.
- Support local/national initiatives which in turn have built team spirit and a culture of awareness/ understanding amongst all employees. The initiatives and employee participation reflects positively on the company's values and integrity of all DAe employees
 - » Shavathons
 - » 16 Days of activism against women and child abuse play
 - » World AIDS Day
 - » Casual Day
 - » Cancer Month
- Build an internal communications team combining Denel Head office, HR and the marketing department
 - » HR and Marketing have worked closely together with all employees in improving the Climate Survey, which is conducted on an annual basis. DAe improved by 10%, which was the highest improvement within the group, and achieved a final score of 78%.

EXTERNAL

DAe conducted regular meetings, facility tours, information sessions and presentations to a number of external stakeholders including:

- The DPE Portfolio Committee and ANC Working Group
- Government Departments (DPE, DTI, DoD, NT, , DST, IDC)
- Armscor and SANDF delegations
- Ekurhuleni Metropolitan representing Aerotropolis
- Current and prospective customers (Airbus, Embraer, RUAG, Alenia, SAAB)



4 TURNAROUND PLAN AND STRATEGIC PRIORITIES

DAe successfully implemented its turnaround plan and met its strategic priorities

01 Operational Excellence

- Meet all Contractual commitments including (A400M WFF and TS, Gripen RF and MLGU, G150, A109 and Rooivalk)
- Implement A400M WFF early Production Ramp-up
- Sustainable Transformation and Enhancement Project (STEP)
- Interrogation of programme performance and improvement of programme management methodologies
- Strengthen bid room management and processes

02 Airbus A400M Negotiation

- Review and agree recurring prices and treatment of non-recurring and modification cost
- Review and agree contractual Terms and Conditions
- Concluded by 2012/2013 year.

03 Restructuring

- Contract negotiations with key customers
- Further reduction in the rental footprint from 50000m² to 25000m² through consolidating all activities into the A2 building - including the composites facility
- Reduction in key cost drivers
- Further outsourcing of non-core activities to reduce fixed costs to variable costs
- Enhance cash flow management

04 Learning Culture & Skills Retention

- Critical skills mapping, retention incentives and reward and recognition programmes
- Promote a high performance learning culture
- Revised skills development plan, mentorship and coaching including "Young Leaders Forum"

05 Long Term Support & Strategic Alignment

- Align DAe to DPE's national strategic goals linked to IPAP2 and Aerospace Sector Development Plan
- Ongoing restructuring and negotiation to reduce funding requirement
- Improving balance sheet solvency

06 Sales & Marketing

- Pursue potential new business to double revenue over the next three years
- Secure strong Government support for new orders
- Focus on the Airbus Tier 1 supply chain
- Repositioning and rebranding DAe

5 CORPORATE GOVERNANCE REPORT

OVERVIEW - INTRODUCTION

The company has a mature corporate governance process that meets most of the requirements of the King III Report, as well as the new Companies Act that became effective on 1 April 2011.

Statements regarding our adherence to the King III Report principles on corporate governance are set out in this report. This report details certain governance principles and the main duties of the chairman, committees and chief executive. The board charter includes a schedule of matters reserved for the board and the terms of reference of various board committees.

The directors are committed to maintaining high standards of corporate governance, which is seen as fundamental in discharging fiduciary duties. The board provides leadership, strategic oversight and oversees the control environment in order to achieve and sustain value to the company's Shareholder and stakeholders. The board ensures that principles of good governance and accountability are adhered to. All of the members of the board are individually and collectively aware of their responsibilities to the company's stakeholders as each

director brings experience, independence of character and judgement.

RESPONSIBILITY AND ACCOUNTABILITY

The board is responsible for ensuring that adequate and effective process of corporate governance is established and maintained. In executing this mandate, the board has acted in accordance with the approved corporate governance systems that is supported by the company's internal policies, internal controls and regulations that has been approved by Denel SOC Ltd.

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

THE BOARD OF DIRECTORS

The company is governed by a board, comprising of seven members: Two executive directors being the chief executive officer and the chief financial officer as well as

five non-executive directors, three of which are deemed to be independent.

APPOINTMENT AND RETIREMENT OF DIRECTORS

DAe's Shareholder appoints independent non-executive directors and the chairman of the board. The executive directors are appointed by the board and are communicated to the Shareholder to complete the process. In line with the requirements of good governance, the Shareholder reviews the composition of the board on a regular basis.

Executive directors are not subject to a rotation process, as they oversee the day-to-day running of the company. They are held accountable for the operational and management performance of the company.

DIRECTORS FORMALISED APPOINTMENT AND REMUNERATION

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

Remuneration payable to non-executive directors includes fees for attending board meetings, sub-committee, ad hoc and relevant entity boards. The fees are based on the guidelines provided and approved by the Shareholder at the AGM.

DIRECTORS' INDEPENDENCE

The directors' independence 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

The directors of the board serve in the audit and risk and personnel and remuneration committees. The board is satisfied that the directors bring insight and experience that is independent of management and the Shareholder.

BOARD INDUCTION AND SHARING OF INFORMATION

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

BOARD MEETINGS

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

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

COMPANY SECRETARIAL

The company secretary is responsible for ensuring systems and processes approved by the Shareholder are followed, which enable the board to discharge specific functions efficiently and effectively. She is responsible for advising the board on corporate governance issues, monitoring

compliance with relevant legislation as well as keeping the board updated on new applicable legislation.

BOARD COMMITTEES

The board has established and delegated specific roles and responsibilities to two standing committees, namely, the audit and risk committee and the personnel and remuneration committee.

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

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

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

| BOARD MEMBER | Jun 2011 | Aug 2011 | Oct 2011 | Nov 2011 | Dec 2011 | Feb 2012 | |
|---------------------------------|----------|----------|----------|----------|----------|----------|-----|
| COMMITTEE MEMBER | 14 | 31 | 31 | 15 | 13 | 22 | |
| Dr G C Cruywagen (Chairman) | √ | √ | √ | √ | √ | √ | 6/6 |
| Mr L C Jones (Chairman) † | √ | - | - | - | - | - | 1/6 |
| Mr I Dockrat (CEO) | √ | √ | √ | √ | √ | √ | 6/6 |
| Ms V Ravjee (Company Secretary) | √ | √ | √ | √ | √ | √ | 6/6 |
| Mr M T Sadik † | A | - | - | - | - | - | 0/6 |
| Mr R Saloojee* | - | - | - | - | - | √ | 1/6 |
| Mr C Groesbeek | √ | √ | A | √ | √ | √ | 5/6 |
| Ms B Paledi | √ | A | √ | √ | √ | √ | 5/6 |
| Mr J Morris | √ | √ | √ | √ | √ | √ | 6/6 |
| Mr F Mhlontlo | √ | √ | √ | √ | A | A | 4/6 |
| Ms C Slabbert | √ | √ | √ | √ | √ | √ | 6/6 |

+ Terminations, *Appointments, A Apology

AUDIT AND RISK COMMITTEE

Membership of the audit and risk committee, including its chairman, comprises of independent 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 Board. These include the audit and risk functions, the governance of risk and IT risk as recommended by King III.

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

- Reviews the financial statements and consider reports of the auditors on the financial statements.

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

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

The invitees to committee meetings include executive directors, internal and external auditors, the group risk

AUDIT & RISK MEETINGS

| | Jun 2011 | Aug 2011 | Nov 2011 | Feb 2012 | |
|---------------------------------|----------|----------|----------|----------|-----|
| COMMITTEE MEMBERS | 14 | 31 | 15 | 12 | |
| Mr F Mhlontlo (Chairman) | √ | √ | √ | √ | 4/4 |
| Mr T Zwelibanzi | √ | √ | √ | √ | 4/4 |
| Ms V Ravjee (Company Secretary) | √ | √ | √ | √ | 4/4 |
| Mr C Groesbeek * | | | √ | √ | 2/4 |
| AUDITORS | | | | | |
| Mr L P van Breda (E & Y) | √ | - | - | √ | 2/4 |
| MS C J Kujenga (E & Y) | √ | √ | √ | A | 3/4 |
| MS C van Wyk (E & Y) | √ | √ | √ | √ | 4/4 |
| MS I Gray (Deloitte) | √ | √ | √ | √ | 4/4 |
| Mr E Bosh (Deloitte) | √ | - | √ | √ | 3/4 |
| Ms C Le Grange (PwC) | √ | - | - | - | 1/4 |
| Ms V Harrypersadh (PwC) | √ | - | - | - | 1/4 |
| STANDING INVITEES | | | | | |
| Mr I Docrat (CEO) | √ | A | √ | √ | 3/4 |
| Ms C Slabbert (CFO) | √ | √ | √ | √ | 4/4 |
| Ms L Viviers | - | - | - | √ | 1/4 |
| Mr G Kapp † | √ | √ | √ | - | 3/4 |

+ Terminations, *Appointments, A Apology

and compliance manager, other executives responsible for the company's operations (when necessary). The audit and risk committee meets with the internal and external auditors without the presence of management.

PERSONNEL AND REMUNERATION COMMITTEE

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

The committee is responsible for overseeing performance in respect of employment equity, transformation and staff development taking into consideration the legal requirements and monitoring of targets set by the company. The committee is also responsible for skills development in terms of not only developing talent but also to retain skills.

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

The committee held the following meetings and attendance are indicated below

| PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE | Nov 2011 | Feb 2012 | |
|--|----------|----------|-----|
| | 15 | 22 | |
| COMMITTEE MEMBER | | | |
| Ms B Paledi (Chairperson) | ✓ | ✓ | 2/2 |
| Mr C Groesbeek* | - | ✓ | 1/2 |
| Mr M Ngidi* | - | ✓ | 1/2 |
| Ms T P Mushungwa | ✓ | - | 1/2 |
| COMPANY SECRETARY | | | |
| Ms V Ravjee | ✓ | ✓ | 2/2 |
| EXECUTIVE INVITEES | | | |
| Ms N Davies | ✓ | ✓ | 2/2 |
| Mr I Dockrat | ✓ | ✓ | 2/2 |
| Ms C Slabbert | ✓ | ✓ | 2/2 |

+ Terminations, *Appointments

EXECUTIVE COMMITTEE

This committee is chaired by Mr Ismail Dockrat, the chief executive officer, and comprises members of the executive team. The committees' responsibilities include overseeing the day-to-day management of the Company's affairs and for executing the decisions of the board. It meets weekly and is actively involved in the strategy development, review of the Company's values, safety performance, operation and monitoring financial performance.

RISK MANAGEMENT

The Company has a sound system of internal controls, designed in terms of approved policies and guidelines. The board reviews and improves the risk strategy and policies formulated by the executive directors and 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 responsibility to ensure that the wide ranges of risks associated with the operations are effectively managed.

CODE OF ETHICS

The board and employees of Denel Aerostructures adhere to a code of ethics. The purpose of the Denel Code of Ethics ("the code") is to set ethical standards for business practice, individual business conduct, and to assist all Denel stakeholders with their ethical considerations, choices, decisions and conduct when dealing with the company.

The group also has an independently operated whistle-blowing mechanism, a fraud hotline which is operated by an independent organisation. Matters that have been reported through this mechanism are investigated and reported to the audit and risk committee.

INTERNAL CONTROL

Responsibility for establishing and operating detailed control procedures lies with the CEO of the Company.

A management representation letter is signed off by the relevant management confirming that the Company has maintained a sound internal control environment, including operational and financial controls and risk management processes during its annual year-end audit.

INTERNAL AUDIT

The function of the internal audit is to appraise the adequacy and effectiveness of the Company's systems of internal control.

SUSTAINABILITY

The Company has aligned its strategy prioritising them based on its ability to create measurable business to objectives such as growth, cost reduction and the management of the business.



6 RISK GOVERNANCE

OVERVIEW

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

Performance on programmes is directly affected by project risks, arising from the long-term nature and the complexity of the programmes, ever-changing technology and other related risks inherent in the contract environment. This impacts delivery, cost and financial performance, amongst other things. The Aerospace industry is highly regulated, and compliance with laws, regulations and standards are a primary requisite for doing business in this industry.

DAe is committed to the protection of its human, property and financial resources, through an effective risk management process. Risk management is linked to the group's strategy, appetite for risk and the achievement of the group's business objectives. Risks are continuously

monitored, risk response plans reviewed, appropriate contingencies are provisioned and this information is reported through established management control procedures. DAe's primary goal is to embed and integrate risk management with all business processes to ensure risks and opportunities are identified, assessed, prioritised and addressed. Stewardship for assets, safe and effective operations, as well as good governance are imperative in order to achieve the company's objectives.

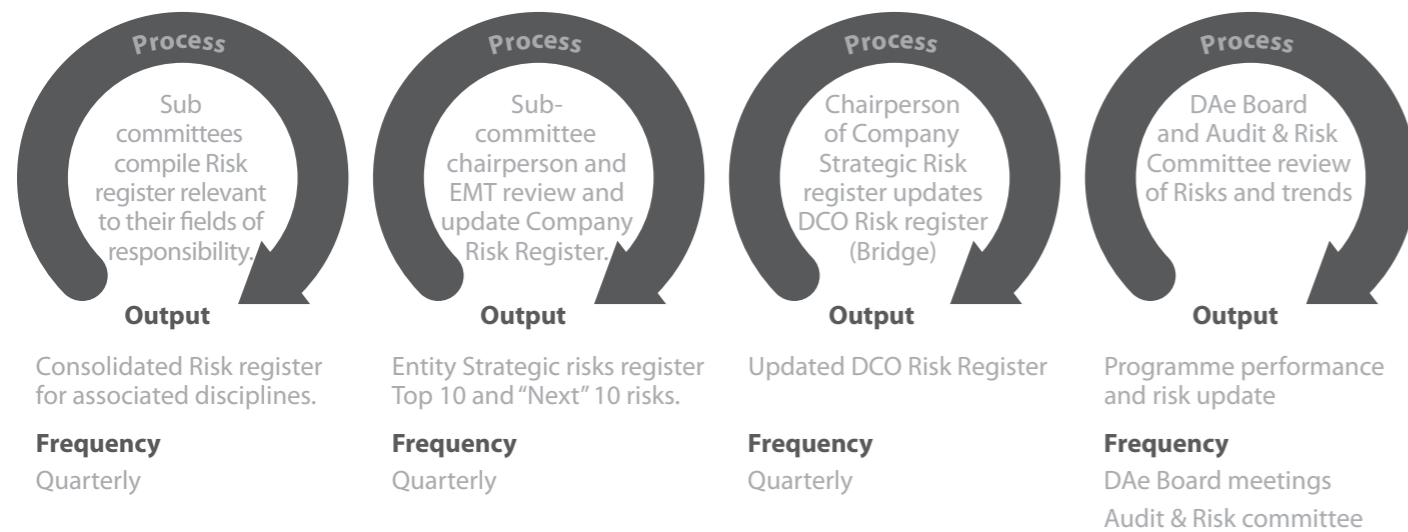
RISK MANAGEMENT PROCESS

Risk management is continuously reviewed by management and reported to the Executive Management by means of a "Strategic Risk Management" review meeting and updating of the Top 10 and next 10 company Strategic risks. The approved Top 10 risks are then uploaded into the DCO risk register (Bridge).

Within DAe there are a number of sub-level risk committees comprising the following areas:

- Operations (Incorporating Engineering and quality)
- Finance and Compliance
- IT
- HR (Shared Service)
- Programmes Department

Risk and opportunity identification is initiated during the corporate and business planning process, and continuously monitored. Sensitivity analysis and budget stress-testing, programme management reviews and monthly budget and operational effectiveness reviews are conducted



The outputs from these committees are used as inputs for the Strategic Risk Register compilation. The responsibility for risk identification, assessment, mitigation, reporting and monitoring rests with line management. Reporting within the company is structured so that key issues are escalated through executive management, the audit and risk committees and ultimately to the board and the Shareholder. As with any system of internal control, the policies and processes that are mandated in the operational framework are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss.

FRAUD PREVENTION AND ANTI-CORRUPTION

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

The confidential ethics hotline number 0800 20 4880, is independently operated and all stakeholders are encouraged to use it.

ETHICS

DAe has an employee ethics policy which underpins DAe's value of integrity and codifies principles of good governance contained in various policies of the organisation to create an ethical business environment. The policy commits the company to sound business practices and compliance with applicable laws and regulations and requires directors and senior managers to declare their interests.

DAe prevents its employees from receiving or offering gifts that could unduly, directly or indirectly, influence their decision-making and requires them to declare gifts received in the gift register.

Directors and senior management declared their interests and these were reported at the audit and risk committees of the various entities.

COMPLIANCE

DAe's compliance programme includes the continuous identification and monitoring of laws and other relevant aspects of regulation that impact DAe's business. The objective of the programme is to prevent breaches as far as practicable, detect breaches and take corrective action.

Health, safety, environmental and quality management as well as OEM accreditation systems are implemented as part of the compliance programme.

7 ECONOMIC IMPACTS

The overall impact of DAe or its closure were analysed for pure economic impact as well as its technological- and innovation impact and their effects on national development goals and industrial policy.

ECONOMIC IMPACT JOBS, CONSUMER INCOME AND TAXES

For the purposes of this evaluation the economic impact were defined as the jobs created, employee income paid, supply chain spend on local suppliers, taxes paid and export revenue earned by DAe.

Analysis is based on documented economic multipliers for aerospace in the United States and more detail on the methodology and references used are presented below.

RESULTS ARE SHOWN IN TABLE 1 BELOW:

| | ECONOMIC MULTIPLIER | DAe APR 2010 ACTUAL |
|----------------------------|---------------------|---------------------|
| Total SA economy Jobs: | | 3218 |
| Direct | | 825 |
| Indirect | 2.5 | 1238 |
| Induced | 3.9 | 1155 |
| Total Salaries (Rm): | | 764 |
| Direct | | 196 |
| Indirect | 2.5 | 294 |
| Induced | 3.9 | 274 |
| Local Supplier spend, (Rm) | | 702 |
| Direct | | 180 |
| Indirect | 2.5 | 270 |
| Induced | 3.9 | 252 |
| Taxes: PAYE + VAT, (Rm) | | 183 |
| Direct | | 47 |
| Indirect | 2.5 | 70 |
| Induced | 3.9 | 66 |

Table 1 – Total DAe economic impact based on US multipliers for aerospace

It should be noted that according to the World Economic Forum 2009, the impact of knowledge intensive industries on GDP growth is higher for developing economies compared to developed economies, so that the industry multiplier for a developing country economy is likely to be higher than those presented for United States. This means that the economic multipliers referred to in Table 1 may be considered as conservative for South Africa.

Above results were then also compared with one local case study (T. Phele, S. Roberts and G. Saggars, School of Economic and Business sciences, University of the Witwatersrand, 2004) conducted to specifically analyse the potential impact of Airbus A400M business on the South African economy. This study used a social accounting matrix (SAM) approach and calculated a total economic multiplier effect of 6.9. Results of the study are summarised in Table 2

| | INCREASE IN VALUE-ADDED | INCREASE IN EMPLOYMENT |
|----------|-------------------------|------------------------|
| Direct | R320 million | 401 |
| Indirect | R539 million | 2767 |
| Total | R859 million | 3168 |

Table 2 – Total economic impact of A400M on SA economy (T Phele et al, 2004)

EXPORTS

Average export revenue for DAe for the period April 2008 to current is approximately R200 million per annum. This period excludes the ramp-up phase of Airbus A400M production which is estimated to be an additional R200 million per annum.

TECHNOLOGY AND INNOVATION IMPACTS ON NATIONAL DEVELOPMENT GOALS

Several policy frameworks and action plans have been launched by Government in recent years to express their strategy and industrial policies to convert the South African economy from a predominantly resource & services based economy to a so called 'knowledge-based' economy able to produce sustained economic growth in



order to deal with SA's socio-economic challenges. These include but are not limited to:

- Medium term strategic Framework 2010 -2013
- National Industrial Policy Framework (NIPF)
- Industrial Policy Action Plan (IPAP2)
- The '10 year Innovation Plan'

METHODOLOGY USED

Due to the ripple effect of economic activity it also consists of direct, indirect and induced effects, where:

- Direct impact refers to the jobs and income of the company
- Indirect impact occur in related sectors that supply goods and services to the company
- Induced effects are created by the increased consumer spending based on increased payrolls of both DAe and its contractors & suppliers.

Various economic models exist for evaluation of total economic impact and calculation of economic multipliers. The DAe analysis was based on the "regional input-output analysis" approach as various well documented United States case studies for Aerospace have calculated and documented economic multipliers for the aerospace industry. This model takes the direct values of the company's jobs, payroll and supplier spend, taxes etc. and calculate additional indirect and induced effects by multiplying this with economic multipliers obtained using RIMS and IMPLAN software.

Some of the case studies consulted from which the economic multipliers were adopted are:

- Boeing Company's Economic impact in Arizona - W. P. Carey School of Business, Arizona State University
- Economic impact of Aerospace on State of Arizona - L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University
- Kansas Aerospace Industry - Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University

The 'South African Aerospace Sector Development Plan (2010 Draft) - C Groesbeeck & B Gerrits' also contains further information in this regard.

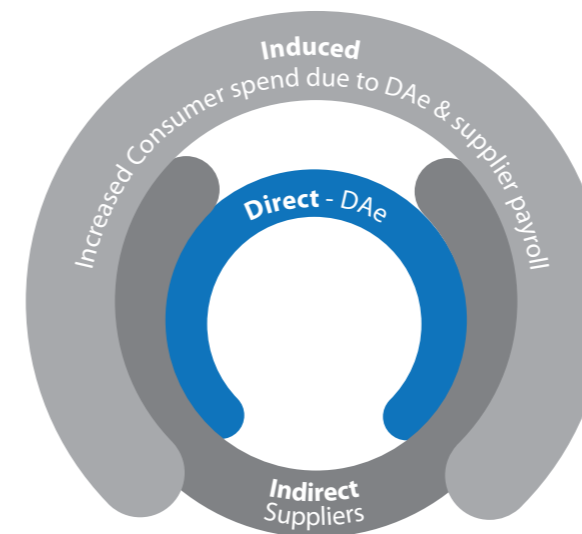
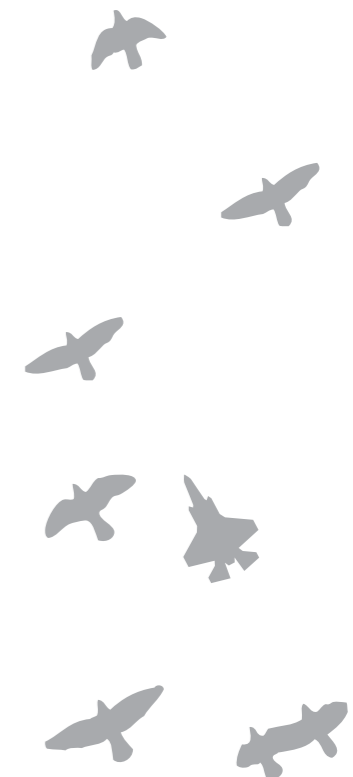


Figure – DAe's Direct, Indirect and induced effects



8 SOURCING AND SUPPLY:

OVERVIEW

Sourcing and Supply comprises off all procurement, strategic sourcing and Logistics/stores management functions.

The following key high-level sourcing and supply goals were pursued during the year under review:

- The Sourcing and Supply chain strategy support DAe's total cost of ownership, improve service delivery, stabilise the supply chain and overall customer satisfaction, as well as compliance with relevant legislation and internal control policies and procedures with a concerted effort to promote B-BBEE in line with DAe's strategy and codes of good practice.
- Developing DAe's sourcing and supply policies and procedures, with implementation of required multi-disciplinary procurement committees (Three Bid Committee) under formal delegation in line with legislated PFMA and PPPFMA.
- Ensure 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.
- DAe is committed to the support and development of local suppliers, with specific focus on emerging B-BBEE and SMME companies to thus contribute to national development and transformation goals.

On-going continuous improvement remains essential to meet international benchmarks. The focus areas have been expanded to include:

- Total Cost of Ownership Reduction
- Obsolete Stock Reduction and Inventory optimisation
- Plate to Billet Conversion / Cut to size project rolling out to extrusion commodities
- Outsourcing initiatives on non-core business
- Rental Footprint Restructuring
- Increased Long term Agreements Coverage
- Supplier Management
- Investigation of Enterprise development in the local manufacturing industry

PREFERENTIAL PROCUREMENT

DAe is further committed to enhance preferential procurement and supplier development practices with specific emphasis on designated exempt micro enterprises (EMEs), small medium micro enterprises (SMMEs) and B-BBEE suppliers in establishing longer-term business partnerships and to enhance its standing as a proudly South African company. Non-core activities such as smaller machining, sheet metal manufacturing and chemical purchasing including stock holding are being outsourced. DAe contributed to mature these suppliers to a specific Airbus approved standard thus cultivating

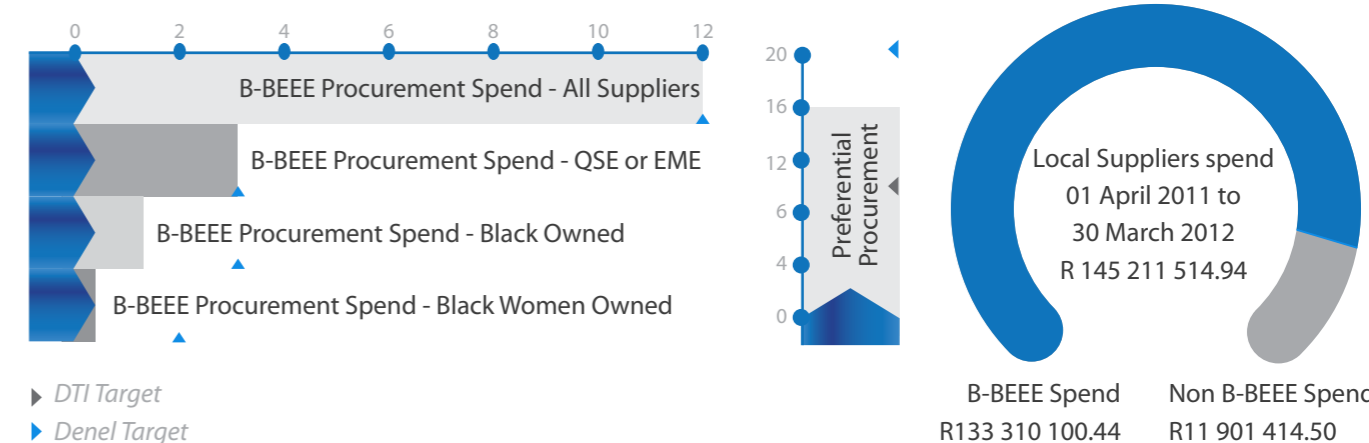
an advanced manufacturing environment. Aspects such as forecast and capacity planning; on time delivery and improved quality standards in terms of a first time pass rate was some of the actions taken to improve the local supplier ability to perform in a global market.

The focus with regards to preferential procurement will be to increase spend on both black owned and black women owned businesses as well as Enterprise Development.

DAe has obtained in the year under review a level 4 BBEE rating

PREFERENTIAL PROCUREMENT - THE STATUS IS AS FOLLOWS

| PREFERENTIAL PROCUREMENT | WEIGHTING POINTS | TARGET & | ACTUAL % | ACTUAL SCORE | % OF SCORE ACHIEVED | DENEL TARGET |
|--------------------------|------------------|----------|----------|--------------|---------------------|--------------|
| All Supplies | 12 | 50 | 75.13 | 12.00 | 150.3 | |
| QSE or EME | 3 | 10 | 18.59 | 3.00 | 185.9 | |
| Black Owned | 3 | 9 | 3.03 | 1.01 | 33.7 | |
| Black women owned | 2 | 6 | 0.16 | 0.16 | 2.6 | |
| | 20.00 | | | 16.06 | | 10.00 |





9 HUMAN RESOURCES AND TRANSFORMATION

Denel Aerostructures has developed HR strategies intended to ensure that the company's business objectives and plans are achieved. Aerostructures has undergone huge organisational changes over the past year.

Strong leadership and communication has been the cornerstone of ensuring that employees remain focused and deliver excellent results. This is evident in that turnover at DAe was around 6% as opposed to industry benchmarks of 10%. Learning and development has been a key focus area, with specific emphasis on the apprenticeship programme. During the past year, DAe has had a total of 45 apprentices with all scheduled to complete their trade tests by March 2012.

DAe has embarked upon numerous Corporate Social Investment initiatives to improve its corporate identity. These programmes have been hugely successful due to participation of employees in the programmes. Aerostructures has also

launched its youth programme called "VUYO". This forum consists of all employees who are under the age of 36 years. This programme was initiated to ensure youth representation and encourage participation of youth and to address youth related employee concerns.

Denel Aerostructures 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.

Priority areas for the year were:

- Conclusion of the organisational restructuring;
- Learning and Development with specific focus on completion of the apprentice programme;
- Performance Management and Improvement;
- BBBEE initiatives including Employment Equity;
- Retention and Reward Programmes;
- Leadership Development Programme for all managerial levels.

EMPLOYEE PERFORMANCE WORKPLACE PROFILE

The total workforce as at 31 March 2012 was 381 of which 354 are employed on a permanent basis and 27 are on fixed term contracts. The table below illustrates our employee profile per job category:

| JOB CATEGORIES | 2010 | | 2011 | | 2012 | |
|------------------------|--------|------------|--------|------------|--------|--------------|
| | Black* | White | Black* | White | Black* | White |
| Senior Management | 2 | 5 | 1 | 5 | 1 | 4 |
| Management | 9 | 26 | 5 | 18 | 4 | 17 |
| Engineering | 6 | 39 | 4 | 30 | 7 | 24 |
| Technical | 14 | 84 | 13 | 57 | 15 | 62 |
| Artisan | 174 | 171 | 101 | 97 | 95 | 85 |
| Configuration | 0 | 3 | 0 | 2 | 0 | 2 |
| IT Personnel | 0 | 5 | 0 | 3 | 0 | 1 |
| Financial | 2 | 8 | 2 | 10 | 2 | 9 |
| Marketing | | | | 1 | | 1 |
| Human Resources | 1 | 5 | | | | |
| Administrative | 41 | 31 | 26 | 15 | 20 | 13 |
| Secretarial | 0 | 4 | 0 | 4 | 0 | 4 |
| Trainees | 79 | 17 | 50 | 7 | 10 | 3 |
| General Workers | 5 | | 2 | | 2 | |
| Sub Total | 333 | 398 | 204 | 249 | 156 | 225 |
| TOTAL WORKFORCE | | 731 | | 453 | | 381** |

*Black refers to African, Coloured and Indian. ** This decreased workforce was due to the extensive organisational restructuring process.



THE TABLE BELOW ILLUSTRATES APPOINTMENTS BY RACE AND GENDER:

| CATEGORY | 2012 | | 2011 | | 2010 | |
|---------------|-----------|--------------|-----------|--------------|-----------|--------------|
| | NUMBER | % | NUMBER | % | NUMBER | % |
| Black Male* | 6 | 25 | 5 | 20.8 | 13 | 39.4 |
| Black Female* | 4 | 16.7 | 1 | 4.2 | 8 | 24.2 |
| White Male | *12 | 50 | 16 | 66.7 | 9 | 27.3 |
| White Female | 2 | 8.3 | 2 | 8.3 | 3 | 9.1 |
| TOTAL | 24 | 100.0 | 24 | 100.0 | 33 | 100.0 |

*Reemployment of retrenched employees.

THE TABLE BELOW ILLUSTRATES TERMINATIONS BY RACE AND GENDER:

| | MARCH-12 | | 2011 | | 2010 | |
|---------------|------------|--------------|------------|--------------|------------|--------------|
| | NUMBER | % | NUMBER | % | NUMBER | % |
| Black Male* | 53 | 52.4 | 100 | 33.2 | 57 | 38.5 |
| Black Female* | 15 | 14.9 | 40 | 13.3 | 21 | 14.2 |
| White Male | 31 | 30.7 | 141 | 46.8 | 63 | 42.6 |
| White Female | 2 | 2.0 | 20 | 6.6 | 7 | 4.7 |
| TOTAL | 101 | 100.0 | 301 | 100.0 | 148 | 100.0 |

*Black refers to African, Coloured and Indian

REMUNERATION, REWARD AND RECOGNITION

Denel has a group-wide performance management and reward system. This system incorporates a variable pay portion that is based on achievement of performance targets by employees and DAe's overall performance. One of the objectives of the variable pay system is to encourage profitability and sustainability. Another objective was to reduce the high employee turnover caused by the lower than market salaries. Overall employee turnover has come down from 9.9% in 2010 to 6.6% currently. The company's target attrition rate ranges from 5% - 8% per year.

The DAe Board considers the latest economic indicators and affordability when providing the annual salary

increase mandate. Wage negotiations take place at a plant level and are based on a company specific mandate.

EMPLOYEE BENEFITS

• MEDICAL AID

The compulsory company medical aid is Discovery Health. The terms of service require employees to be a member of medical aid. The necessary deductions from employees' salaries are made and paid over to the medical scheme.

• DENEL RETIREMENT FUND

Denel has in place a retirement fund for all employees. The fund is based on a defined contribution model

where employees are not guaranteed a specific pay-out at the time of retirement since it is dependent on the performance of investment mechanisms used. The Denel retirement fund is administered by Alexander Forbes.

POSITIVE EMPLOYEE RELATIONS

DAe's relationship with labour unions remains stable and positive, notwithstanding, the retrenchments that took

place during the year under review. All consultations and negotiations are completed timeously and in a positive spirit. Recognition agreements with the three labour unions are in place. The three unions recognised by DAe are Solidarity, NUMSA and UASA. Another objective was to reduce high employee turnover by making remuneration more attractive / market related.

PROFILE OF UNIONS REPRESENTED IN DAe:

| UNION | 2012 | | 2011 | | 2010 | |
|------------------------|------------|------|------------|------|------------|------|
| | NUMBER | % | NUMBER | % | NUMBER | % |
| Solidarity | 110 | 28.9 | 133 | 29.4 | 205 | 28.0 |
| Numsa | 66 | 17.3 | 75 | 16.6 | 148 | 20.2 |
| UASA | 66 | 17.3 | 67 | 14.8 | 83 | 11.4 |
| Total | 242 | 63.5 | 275 | 60.7 | 436 | 59.6 |
| TOTAL WORKFORCE | 381 | | 453 | | 731 | |

LIVING OUR VALUES

DAe has a set of corporate values aimed at prescribing desired behaviours required in the workplace. DAe encourages these behaviours by regularly communicating them and by rewarding positive behaviours.

EMPLOYEE WELLBEING

• WELLNESS DAYS

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

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

• PROGRAMMES IN SUPPORT OF HIV/AIDS AWARENESS

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

DEVELOPING SKILLS

• EMPLOYEE SKILLS DEVELOPMENT INITIATIVES

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 every employee 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. DAe has spent a total of R4, 06m on skills development and learning programmes for the current financial year.

• LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

Denel has a leadership and management development programme, founded on specific behavioural and functional competencies developed to fit the company's needs. All DAe Managers have undergone intensive psychometric assessments and have received individual reports which outline development areas. Personal mastery workshops have also been conducted.

The Unisa SBL Denel leadership and management development programmes were launched in June 2011, as part of yet another method of closing the leadership gaps identified. 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.

• SUCCESSION PLANNING

DAe developed a succession planning framework (called 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 aligned to the transformation programme of the company. Identified potential successors are put through the same developmental process as our leadership and management development framework.

• EMPLOYEE STUDY BURSARIES

DAe continues to grant study loans 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.

• SOURCING AND SUPPLY TRAINING

A full skills assessment was carried out by CIPS (The Chartered Institute of Purchasing & Supply) and TKB (Tirisano Ka Bato training consultants) to assess the training requirements for the procurement department and the stores personnel respectively. A training plan was compiled and training commenced with stores and procurement personnel from September 2011.

• ARTISAN TRAINING

DAe trained 45 apprentices in the past year which will impact positively on the South African economy by providing highly sought-after artisans for the industry. The training covers a wide spectrum of skills and aircraft related disciplines including aircraft composites, aircraft structural work, fitting and turning, machine tool millwright, tool and jig and turner machinist. The challenge remains that DAe is training artisans for the industry while posting losses. However, with additional funding, DAe can continue to train artisans to make a meaningful contribution to air safety and raising the levels of skills in the industry. Due to the cost of training artisans it remains a challenge due to DAe's financial constraints.

TRANSFORMATION OVERVIEW

DAe has been implementing various transformation initiatives since 2007. DAe has achieved a level 4 B-BBEE score. Two flagship programmes have been implemented namely:

1. B-BBEE Compliance
2. Climate Improvement.

The Climate Improvement Plan comprises of the following indicators:

Elements for climate improvement include the following:

- **Performance management:** Measures the extent to which Performance Management System is implemented in a fair and consistent manner.
- **Information and participation:** Measures the extent and effectiveness of staff participation, establishment, maintenance and effective utilization of participatory structures (e.g. Transformation Committees, workplace

forums, departmental meetings, etc.).

- **Employee satisfaction:** Measures the degree of satisfaction displayed by employees relative to their perceived and genuine grievances.
- **Opportunities:** Measures the extent to which advancement opportunities for employees are created and implemented.
- **Values:** Measures the extent to which the Group Values are supported, communicated, and lived (by example) by all employees.
- **Succession Planning:** Measures the extent to which continuity in the company in terms of critical skills and key competencies is addressed.
- **Mentorship:** Measures the extent to which mentorship programmes are developed and implemented especially on critical competencies.
- **Retention:** Measures the degree to which an entity manages its turnover rate especially of critical employees.

MONITORING OF TRANSFORMATION PERFORMANCE

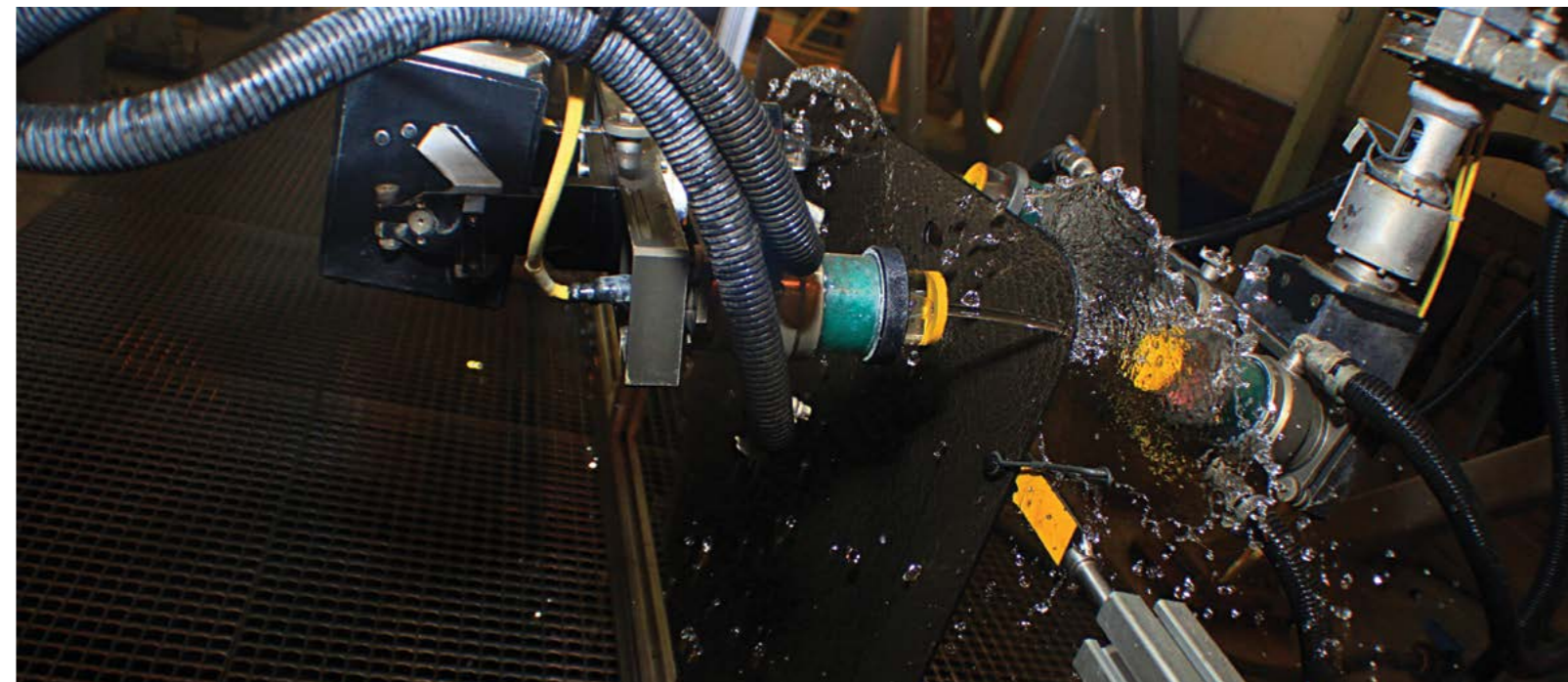
DAe believes in genuine social transformation that is sustainable and adds value to the employees, the company and the community at large.

- DAe has an appointed transformation champion who manages implementation of transformation within the company.

- Transformation committees are chaired by the CEO and the meeting takes place at least four times per annum. The role of the committees 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. This format of managing transformation ensures involvement by all stakeholders and also that consultation occurs.
- HR and transformation, is a key performance area, and it forms part of the CEO's performance contract. Achievement of all contracted deliverables leads to qualification for the variable pay and impacts to some extent on the annual salary adjustment. Non-performance is handled in line with the company's performance management system and relevant legislation governing such matters.

DAe'S PERFORMANCE ON B-BBEE

This is the third year that DAe has been evaluated by an external agent on B-BBEE. The company's target was to achieve an overall level 4 score for the 2011/12 period and this has been achieved.



DAe has improved its overall B-BBEE scorecard from 68% in 2011 to 73% for the 2011/2012 financial year. This score makes DAe a 100% contributor and adds value to our suppliers. The challenge, however still remains with the employment equity element. DAe continues to diligently work on all aspects and we are beginning to make inroads as we have managed to improve the overall score with 19.26% for 2010. The new financial year will see DAe placing greater emphasis on equitable representation at all levels.

IMPROVING ORGANISATIONAL CLIMATE

The entities' climate improvement plans are evaluated for performance annually by an independent consulting firm. The overall score for this reporting period is 78% which is 4% better than the previous score of 74%. The table below illustrates the performance indicators designed by the company to track its progress:

| RATING | SCORE | TRANSFORMATION STATUS | DESCRIPTION |
|------------|-----------|---------------------------|---|
| 5.0 | 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 their 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 their planned transformation initiatives and in so doing they are 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. |

It is important to note that the year under review was characterised by numerous job losses through retrenchments which has negatively impacted on morale. A group-wide climate survey took place in March 2012 to evaluate the company's current climate. An overall index of 55% was achieved which is an improvement of 5% compared against the Denel Group overall index in 2008.

10 SOCIO-ECONOMIC DEVELOPMENT

DAe believes that it has a significant role to play in contributing to the economic development of the country and as such acknowledges its responsibility towards the sustainability of economic, environmental, and social conditions. As part of its transformation drive and in line with the company's values, DAe has embarked on numerous local and nation building projects which support the local community, diversity, government national days and employee wellness.

C. EMPOWERING THOSE WITH DISABILITIES AND FROM PREVIOUSLY DISADVANTAGED BACKGROUNDS:

DAe proudly supports those with disabilities. To create awareness, DAe goes to town with the national initiatives:

- **Shaveathons and Casual Day:** DAe has raised over R10 000 for the two initiatives combined. Departments show their support for these campaigns by competing against each other.
- **DAe's "Make 'em Fly" CSI Campaign:** DAe in partnership with Kid's Haven, a shelter for homeless children launched the campaign "Make 'em Fly". The campaign is aligned with the company's values of caring for the community and helping others grow. The campaign supports the needs of the NGO, by giving the children wings to fly into their future. It involves:
 - » Employees volunteering their time outside and within normal working hours
 - » Donations (Monetary and In-kind)
 - » Educating their Youth Group and promoting Maths and Science
 - » Executive members acting as mentors for the children
 - » Kid's Haven children being exposed to opportunities/events at DAe thus educating them on the Aviation Industry and the Corporate World.

A. SUPPORTING GOVERNMENT THROUGH SPONSORSHIPS

- **Chief of Air Force Coffee Table book:** DAe is proud to be a part sponsor in the collaboration of this CAF Coffee table book that showcases the aviation industry in South Africa while taking an in-depth look at the role and work of the SAAF. Being part of this initiative highlights DAe's commitment to maintain and build their relationship with the SAAF, thus assisting in building the future of South Africa.
- **SAAF Benevolent fund:** DAe keeps a platinum sponsorship with the SAAF Benevolent Fund which highlights DAe's commitment to giving back to the Aviation industry.

D. EMPOWERING WOMEN:

B. ENTERPRISE DEVELOPMENT

- DAe will be spending R150 000 in 2012 on developing small to medium size enterprise suppliers through mentorship and training as well as providing administrative and procurement assistance to the designated SMME's.
- DAe is currently undergoing a name change and throughout the processes making use of SMME's for their deliverables.
- Through DAe's restructuring, DAe is assisting with the growth and development of local aviation companies, thus enhancing small business development.
- DAe is supporting Kid's Haven Entrepreneurs, by providing them with materials for their businesses.

- **DAe believes in acknowledging and empowering women:** DAe has had two powerful women speakers, Major Catherine Labuschagne – First female to fly the Gripen Fighter Jet – and Susan Smith- a women living with HIV/AIDS. Both speakers spoke of the struggles they have faced being women and how they have overcome all odds.
- **Women's day:** pampering our women, DAe combined with DA, DTA and DPS, held the first ever Royal Makeover on the Kempton Park campus. Chata Romano, stylist guru, held the 3 hour workshop discussing topics from weight, to accessories, fashion, hair styles and so forth.
- **Empowered Women at DAe:** Mandie Fourie, DAe's female apprentice won an award and was the first woman ever to achieve this award in aviation history. Bongki Sekgube, is DAe's and the Aviation Industry's first female spray painter.



- **Secretaries Day:** DAe honoured the Secretaries and Personal Assistants of the company by treating them to breakfast with Gavin Sharples.
- **Take a girl child to work:** “Today a girl, tomorrow a girl child” “Choose your tomorrow today” are the themes we promote amongst the young ladies who spend a whole day at DAe. Employees brought their daughters, cousins and sisters to work, Kid’s Haven grade 10’s, 11’s and 12’s ladies attending Reiger Park and Dinota Technical High School are some of the young ladies we have hosted. The day sees the girls being hands on in operations, making sample pieces of aircrafts, motivational speakers, team building activities, interaction with top management as well as career guidance. These young ladies are our future, DAe believes in investing time and money in the campaign in developing these young leaders.



E. DAE EMBRACES DIVERSITY:

- **DAe on Diversity: SOUTH AFRICA: THE RAINBOW NATION:** South Africans have been referred to as the ‘rainbow nation’, a title which epitomises the country’s cultural diversity. Here, at DAe, we are living proof of SA’s diversity as we have all 11 official ethnic groups working together. On a quarterly basis, DAe runs “DAe on Diversity”. Allowing us to get to understand and interact with one another’s culture.
- **Heritage Day:** Celebrating Denel’s heritage as well as employee heritage, DAe employees worked together to create a traditional South African market and with live traditional entertainment. Celebrating the campus’ heritage - photos of the first establishments, leadership and production in Kempton park were on display. DAe created the look and feel of the traditional market where all 11 official languages, Khoi San and international cultures were represented.

F. EMPLOYEE WELLNESS/ SPONSORSHIP/COMPETITIONS– CHARITY BEGINS AT HOME

DAe believes that charity begins at home – it’s evident by:

- Providing sponsorships to employees –an internal soccer team and Action Cricket team.
- Participating in Denel events such as the road race and various other events

- Competitions run monthly where employees participate and stand a chance to win prizes ranging from hot air balloon rides, movie vouchers, Chief of Air Force Coffee Table Books to outings with their departments.
- Birthday Initiatives – managers personally give their employees a birthday card with two movie vouchers
- Award functions – Aero Achievers
- For two years – DAe employees have received variable pay
- ICAS – internal, free support system that provides employees with counselling personal/work related
- Year-end function – Giving back to charity: The theme for DAe’s year-end function was giving back to charity. Employees gave donations which were distributed to various charities.

G. EDUCATION INITIATIVES AND PROGRAMMES

With the “Make ‘em Fly” Campaign, Kid’s Haven youth are given the opportunity to be exposed to the corporate environment. DAe offers the youth assistance in developing their CV’s to make them more marketable. DAe offers internships to the children, where they undergo three months of training ranging from administration, planning and executing campaigns, event co-ordinating to computer skills.

- **Job shadowing:** DAe invites employees’ children, Grade 11 and 12 pupils from various schools and NGO’s children to job shadow DAe employees.
- **Mentorship programmes:** DAe currently has five qualified mentors.
- **Ispani TV Series:** Ispani is a TV series that highlights careers in Advanced manufacturing. Young graduates are given a chance to complete certain tasks within a manufacturing environment. If successful, they are offered an internship within DAe. Currently we have our first intern – Maggy Sereku.
- **Air show career days:** DAe has hosted over 180 learners through career sessions held at Zwartkops and Rand Airshows. Over the years, air shows have proven ideal opportunities to expose youth to the wide range of career options available in the aviation industry, and to show them the key roles played by technicians and artisans.
- **Kids Haven Youth Development:** Kid’s Haven runs a youth programme where matriculants are trained in work etiquette and encouraged to volunteer their time at companies to gain work experience as well as undergo training in basic computer skills. DAe offers support and involves the youth group in all their corporate events and national days. Currently DAe has employed a young person, Maggy Sereku, from Kid’s Haven Youth Development programme to give her on-the-job experience and skills.

H. NATIONAL SOCIO-ECONOMIC INITIATIVES

- **Nelson Mandela Day:** Caring is a value that DAe has in all its employees. Giving back to the local community, not with money but with our employees’ time. The Amazing Flight race saw young learners and DAe employees completing aviation tasks at various stations, thus educating the children in maths and science as well as giving them exposure to the aviation industry. DAe employees, assisted by the children, also had to complete tasks such as dancing and face painting.
- **World HIV/AIDS Day:** 16 Days of Activism: A combined event was held on the Kempton park campus, all entities came together to participate in the “Walk for Life”. The combined effort saw over 600 employees uniting against Women and Child abuse and Human Rights on World AIDS Day.
- **Bokke Fridays, Soccer Fridays:** Employees show their support for national events by wearing Denel Soccer/ Rugby T-shirts.
- **Cancer month:** Employees are encouraged to wear pink in support of Cancer awareness. Cancer awareness programmes and infograms are distributed.

11 OCCUPATIONAL HEALTH AND SAFETY

OVERVIEW

DAe strives to comply with all statutory requirements as contemplated in the Occupational Health and Safety Act 85 of 1993.

Our SHE policy details a program that ensures that all statutory requirements are complied with.

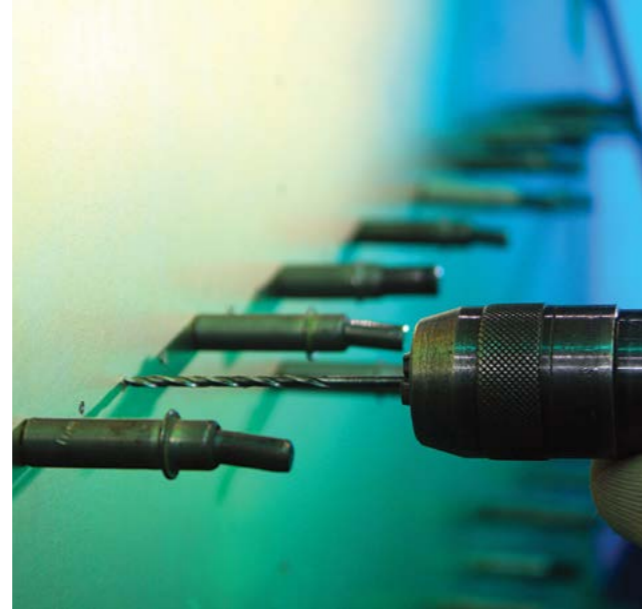
The objective is to provide and maintain a high standard of safety in our environment to ensure that our employees and clients are adequately protected from injuries and diseases.

We aim to promote a proactive and safe culture through awareness training, communication and management commitment at all levels.

Compliance audits are conducted by external approved inspection authorities to ensure adherence to legal requirements.

Occupational health and Safety Governance Structures:

- Occupational Health and Safety Policy.
- DAe had updated its Safety policy in March 2010. Policy statement is conspicuously displayed in all facilities.
- Occupational Health and Safety Committees.
- There are six committees comprising of SHE representatives and Management representation.
- Ten meetings were held by various committees in the current year.



The target was marginally exceeded as a result of five Disabling Injuries that were reported. These injuries can be attributed to 3 apprentices who were not familiar with the operations of the machines. The apprentices have since been trained on safe operations of the machines.

Summary of the injuries and corrective action taken

- An operator was injured whilst removing a mould from the Autoclaves. A trolley ran over her foot as a result of a damaged floor. The floor has since been fixed.
- A tool fell on the apprentice's finger whilst removing it from the machine spindle. Apprentice was trained on safe operations of the machines.
- Operator slipped off duck board, fell on the ground and was cut by the shavings on the thumb. Duck board has since been replaced with a rubber mat.
- An Apprentice was injured when a fixture fell on his foot whilst assisting an operator to unclamp it.
- An apprentice was injured whilst operating a milling machine, caused by incorrect operation of the machine. Apprentice was trained on safe operations of the machines.

OCCUPATIONAL HEALTH AND SAFETY GOALS, OBJECTIVES AND TARGETS

| BUSINESS ENTITY | GOALS AND OBJECTIVES | LOSS TIME INJURY FREQUENCY RATE | | |
|-----------------|---|---------------------------------|-------------|-------------|
| | | Actual 2011 | Target 2012 | Actual 2010 |
| DAe | To provide and maintain a safe working environment in compliance with the legal requirements and to maintain LTIFR below 1. | 1.02 | <1 | 0.77 |

OCCUPATIONAL HEALTH AND SAFETY STATISTICS

| KPI | ACTUAL | | TARGETS | |
|---|--------------|------------|--------------|------------|
| | CURRENT YEAR | PRIOR YEAR | CURRENT YEAR | PRIOR YEAR |
| Total man-hours worked | 817.074 | 1167.944 | 829.800 | 1168.344 |
| No. of Lost time due to injuries (One shift or more absent) | 5 | 3 | 4 | 2 |
| No. of reportable injuries (Section .OHSAct) | 0 | 0 | 0 | 0 |
| No. of reportable diseases(Section OHSAct) | 0 | 0 | 0 | 0 |
| No. of fatalities | 0 | 0 | 0 | 0 |
| No. of occupational health and safety incidents | 13 | 5 | 8 | 10 |

OCCUPATIONAL HEALTH PROGRAMME IS PROVIDED IN THE TABLE BELOW.

| OCCUPATIONAL HEALTH PROGRAMME | NUMBER OF EMPLOYEES ATTENDED |
|--|------------------------------|
| Pre-employment and exit medical examinations | 150 |
| Periodic medical examinations | 208 |
| Biological monitoring | 104 |
| Audiometric (hearing) tests | 95 |
| Hygiene surveys | 01 |

OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS

| TRAINING TYPED OFFERED | NUMBER OF EMPLOYEES TRAINED FOR DAe |
|---|-------------------------------------|
| Health and safety induction contractors | 110 |
| Hazardous chemical substances | 23 |
| Safety representatives | 7 |
| Legal training for supervisors | 7 |
| Fire fighters | 32 |
| Crane and forklift operators | 47 |



Safety awareness was also conducted by all of our production leaders throughout the facility about Safety talk topic such as:

- How to handle work stress,
- How wrong attitude leads to unsafe action
- Safe manual handling (back injuries) etc.

There has been a full compliance of safety on site from our contractors.

- A hygiene survey was conducted by external approved inspection authorities to determine noise, air quality, luminance, carbon content and ventilation specific recommendation were given in the survey that were implemented by DAe.

Internal Audits

- Safety Audits monthly
- Safety inspections bi-monthly



12 ENVIRONMENTAL RESPONSIBILITY

OVERVIEW

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 we operate.

In meeting the above objectives we also strive to comply with all applicable legislation and corporate requirements.

ENVIRONMENTAL POLICY AND MANAGEMENT SYSTEM

The responsibility towards the environment is detailed in the SHE policy. The policy provides guidelines in which to manage all operations to ensure that the environment is adequately protected.

Although DAe complies with all applicable legislation, recognised management system ISO 14001 is not yet implemented. It is our ultimate goal to acquire ISO 14001 certification to ensure environmental sustainability.

EMPLOYEE TRAINING AND AWARENESS

- All new employees and contractors receive induction on safety, health and environmental procedures applicable to DAe.
- Awareness is enhanced by the monthly shop talk topics

WASTE PRACTICES AND RECYCLING

- 100% Of our aluminium waste generated from our manufacturing process is recycled
- Hazardous materials are disposed of by approved waste management specialist and DAe retain the safe disposal certificates.
- Domestic waste is collected and disposed of by the approved environmental specialist in collaboration with Denel Industrial Properties.

| TYPE OF WASTE | WEIGHT |
|--------------------------|------------------|
| Aluminum | 78730 kg |
| Silver Cyanide | 9680 kg |
| Copper Cyanide | 630 liters |
| Cyanide | 2940 liters |
| Heat Treatment Salts | 5250 liters |
| Adrox 6333 | 3150 liters |
| Cadmium waste | 720 liters |
| Enstrip cyanide waste | 17640 liters |
| Caustic and Chromic acid | 21210 kg |
| Chrome waste | 750 liters |
| Effluent sludge | 8800 kg |
| Effluent Water | 227345.68 liters |
| Paint tins | 13000 kg |

ENERGY AND WATER USAGE

Electricity and Water is managed by our landlord Denel Industrial Properties. A project was launched in August 2011 to implement efficient energy and water management systems for DAe. The objective of the project is to monitor energy and water usage, set targets and reduce consumption. This will provide an opportunity to contribute towards the Energy Efficiency Strategy of the country of reducing energy consumption by 12% by 2014. The project will also explore opportunities for economic benefits for energy conservation and waste minimisation. The energy reduction program will be launched in the next year.

DAe has also implemented water management system for the water treatment plant to monitor water usage. The water is recycled through the plant and only 20% is lost in the system. Previously the water was monitored by Denel Industrial Properties. As of December 2011, we have started monitoring effluent water usage.

ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES

- Our products are in accordance with our customer requirements and comply with all applicable legislations and have no impact on the environment. All our material complies with the European Regulation standards (REACH).

COMPLIANCE WITH LAWS AND LEGISLATION

No penalties were issued in the current year. The requirements of the By-laws, NEMA and OSHAct were fulfilled. Biannual external assessments are conducted by the approved inspection authorities to ensure adherence to the legislation. Compliance audits will be conducted upon completion of the space optimisation project. Occupational hygiene survey conducted by an approved hygienist throughout the manufacturing areas to evaluate the air quality, ventilation, illumination, noise, acid fumes emissions and Carbon dioxide content. The results indicated that levels of the above were within the legal requirements with the exception of noise in some areas but the control measures developed are sufficient to mitigate the risks.

ENVIRONMENTAL EXPENDITURES

| ITEM | COST |
|--------------------------|--------------|
| Energy monitoring meters | R 188,898.00 |
| Waste Management | R 128,463.95 |



5. ANNUAL FINANCIAL STATEMENTS

1. REPORT OF THE AUDIT & RISK COMMITTEE

The audit and risk committee reports that it has adopted appropriate formal terms of reference as its audit and risk committee charter and has discharged its responsibilities as contained therein.

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

- The effectiveness of internal controls.
- The risk areas of the company's operations covered in the scope of internal and external audits.
- The adequacy, reliability and accuracy of financial information provided by management.
- Accounting and audit concerns identified through internal and external audits.
- The company'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.

The committee has evaluated the annual financial statements of Denel Aerostructures SOC Ltd for the year ended 31 March 2012 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.



FIKILE MHLONTLO
Chairman of the audit and risk committee

2. INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DENEL AEROSTRUCTURES SOC LTD FOR THE YEAR ENDED 31 MARCH 2012

REPORT ON THE FINANCIAL STATEMENTS INTRODUCTION

We have audited the annual financial statements of Denel Aerostructures SOC Ltd, which comprise the statement of financial position as at 31 March 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and director's report, as set out on pages 88 to 103.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's 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 and the requirements of the Companies Act and the Public Finance Management 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.

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

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

OPINION

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Denel Aerostructures SOC Ltd as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act and Public Finance Management Act of South Africa.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the fact that the company incurred a total net loss of R78 million (2010/11: R237 million), which resulted in an accumulated loss of R1.3 billion at 31 March 2012 (2010/11: R1.2 billion). These conditions, and other matters that are set forth in the directors' report, (pages 80 to 83) indicate the existence of material uncertainties, which may cause significant doubt about the company's ability to continue as a going concern.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA 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 included and consolidated with the rest of the Denel SOC Ltd group and consequently our procedures were conducted at Denel SOC Ltd, the company's holding company.

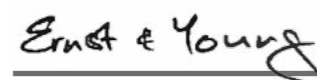
COMPLIANCE WITH LAWS AND REGULATIONS

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

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA.

INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, shareholder compact key performance indicators and compliance with laws and regulations. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.



DIRECTOR – CHERYL-JANE KUJENGA

Ernst & Young Inc.

Registered Auditor

Chartered Accountant (SA)

Wanderers Office Park, 52 Corlett Drive, Illovo

Johannesburg

28 September 2012

3. 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 2012.

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 pages 74 to 129 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.



DR G C CRUYWAGEN

Chairman of the Board

In arriving at this conclusion, the directors considered the cash position at 31 March 2012, 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 in page 82 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 77.

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 2012.

The annual financial statements for the year ended 31 March 2012, set out on pages 74 to 129, have been prepared under the supervision of Ms C Slabbert CA/SA and were approved by the board of directors on 28 September 2012 in terms of the Companies Act and the Public Finance Management Act and is signed on their behalf by:



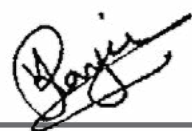
MR I DOCKRAT

Chief Executive Officer



4. CERTIFICATE BY COMPANY SECRETARY

The company secretary certifies that the company (Reg. No.2006/028012/30) 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, No.71 OF 2008 and that all such returns are true, correct and up to date.



MS V RAVJEE

Company Secretary

5. DIRECTORS' REPORT

FINANCIAL REVIEW:

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

| | 2012 | 2011 |
|---------------------------------------|---------------------|----------------------|
| | R | R |
| Turnover | 260,143,903 | 281,027,479 |
| Cost of sales | (220,753,459) | (389,904,740) |
| Gross profit/(loss) | 39,390,444 | (108,877,261) |
| Other income | 11,066,917 | 36,910,663 |
| Other operating expenses | (124,527,816) | (151,307,967) |
| Profit/(loss) before interest and tax | (74,070,455) | (223,274,565) |
| Net Interest | (4,401,498) | (13,980,632) |
| LOSS FOR THE YEAR | (78,471,953) | (237,255,197) |

The company is showing steady signs of improvement in the financial performance with a reduced loss of R78 million compared to prior year of R237 million. This can largely be attributed to the following:

- Turnover for the year under review was R69 million more than the budgeted turnover of R191 million. This has positively contributed to the improved net loss position for the current year. The increased sales are mainly due to increased non recurring costs incurred on the Airbus programme than what was budgeted for; roll over production on the Agusta Programme from the previous year-end and earlier

production ramp-up for the completion of the Gripen work packages.

- The Company incurred a gross profit for March 2012 of R39 million. Although it is a commendable improvement from the previous years, the contribution thereof is not sufficient to cover the operating expenses base line. Improvement in contributions to operating expenses will progress going forward with an increased production load due to the ramp-up on the Airbus contract.
- Other Income of R11 million was mainly due to foreign exchange gains and the sale of obsolete stock.
- Included in the other operating expenses is a reversal

of impairment for a CMS Router. This machine was impaired in 2009 and due to work orders loaded to the machine for current production and the future, the impairment was reversed with a net positive impact of R24 million.

- A very good improvement in interest costs is evident in the financial results of the current year in relation to the two previous years. Interest costs incurred for the current year is 68% less than the previous year. This is due to good working capital management by reducing the cash requirements and managing cash flow in order to reduce interest cost exposure.

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 breakeven in 2016/17.

SIGNIFICANT CONTRACTS:

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

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 WFF is made up of 86 composite panels and doors and some 1 100 metallic sub-structural parts and is designed for ease of systems installation and maintenance. The TS is made up of more than 1 100 parts consisting of a large machined skin, engineered out of an aluminium alloy. Each aircraft is fitted with two top shells positioned in front of and behind the wings where it is joined to the fuselage. Over a thousand system brackets

support the vital electric and electronic wiring, hot air and heat exchange piping and include the aircraft's life-rafts.

Since contract signature in early 2005, DAe has designed and manufactured 12 WFF and 13 TS ship sets. The first production models for TS and WFF were delivered in December 2010 and November 2011 respectively. The first production aircraft MSN007 is to be delivered to the French Air force in December 2012. The deliveries will continue until MSN198 in October 2020. The contract provides for 174 ship sets. DAe is currently gearing up for early ramp-up which will increase production of the WFF and TS to eight in 2012/13, 16 in 2013/14 and 24 in 2014/15. Thereafter the rate of two ship sets per month will be maintained during serial production phase.

During 2010 management reviewed the profitability of the WFF and TS programmes and concluded that the recurring price on both contracts were not viable. Management further highlighted key terms and conditions of the contracts which were viewed as onerous. In an attempt to reduce the negative impact of the DAe loss making position on Denel, various alternatives were investigated to reduce the future funding requirements. These included engaging with Airbus to renegotiate the contracts.

The contract was renegotiated with Airbus resulting in price increases and reduced penalties. Included in the negotiation commitments was the reinstatement of a previously cancelled A400M work package to DAe. As a result of the price uplift, a financial breakeven position will be reached in 2016/17. Final amendments of the contracts will be concluded in the 2012/13 year.

The strategy going forward is to scale capabilities to A400M requirements and to simultaneously secure new orders aligned to such A400M technologies & capabilities. This will aid revenue for DAe during the turnaround of the company and to mitigate production risks.



IMPAIRMENT OF ASSETS:

Impairment tests to assess the recoverability of the plant and equipment were performed due to the continuous losses being incurred, negative cash flows and low order coverage. The impairment testing involved making use of an independent plant and equipment valuer, as well as making significant judgments and estimations. The relevant details are disclosed in the accounting policies (Impairment of property, plant and equipment) of the annual financial statements.

The impairment of assets test revealed that no further impairment provisions were necessary as at year-end. A CMS Router machine that was impaired in 2009 has been reinstated to the value of R24 million and is included in the annual financial statements.

FUNDING:

During the current financial year Denel SOC Ltd converted shareholders loans advanced to DAe of R167 million from interest bearing to non-interest bearing borrowings, thereby increasing non-interest bearing borrowings to R536 million (before equity split) during the current financial year. Interest bearing borrowings decreased to R65 million (2011: R167 million). The interest bearing borrowings relate to the overdraft facility utilised during the current financial year. Repayment of the shareholder loans, both interest bearing and non-interest bearing borrowings, have been deferred until DAe is in a positive net equity position.

Due to the fact that the Denel loan was structured as being interest free and subordinated to the benefit of other creditors, IFRS requires that the company make an assessment to determine the fair value of the loan based on the present obligation payable as at 31 March 2012. Current forecasts indicate that the repayment of the loan is unlikely and the fair value differential of R528 million was classified as equity.

A long term loan owing to SAAB AB to the value of R101 million was outstanding at year-end. The loan originated when SAAB AB was a minority shareholder of the company and provided funding to the company via a shareholders loan. SAAB AB exited their shareholding by exercising their put option on 31 March 2011.

Repayment of the SAAB AB loan is currently under negotiation. The original re-payment terms, in terms of the agreement were 5 years from inception of the agreement (2009).

DENEL AEROSTRUCTURES SOC LTD GOING CONCERN:

DAe has been in financial and operational difficulty since its inception. Although the Turnaround Plan implemented by management is starting to reflect in various improvements; the company is still loss making and has a negative equity position of R487 million (when considered before the IFRS adjustment related to the shareholders loan).

The matters discussed in the preceding paragraphs indicate material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However the annual financial statements for the year ended 31 March 2012 have been prepared on a 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.

The directors, in evaluating the appropriateness of the going concern assumptions used in the preparation of the annual financial statements, took the above stated risks into account, the cash requirements for 12 months from reporting date, the solvency, and cash position at year-end and available borrowing facilities. In particular, the directors considered the matters summarised below:

- The effect of the renegotiations of the Airbus contract, specifically with regard to the new recurring prices and revised ramp up schedule. The resultant impact is that DAe is now expected to break even in 2016/17.
- The financial guarantee letter provided by Denel SOC Ltd as the company's shareholder. This letter provides a broad form of financial guarantee whereby Denel states that it will ensure that DAe will be put in a position via funding or other support to meet its financial obligations as they fall due. The guarantee also provides for the subordination of the shareholder loans to the benefit of other creditors. Future funding of the company will be provided by Denel via the financial guarantee through the overdraft account with Denel Treasury Department.
- The solvency and liquidity position of the company

as at 31 March 2012. A recapitalisation of R700 Million for DAe has been announced by the Finance Minister in his budget speech in February 2012. This has created confidence in the market, in general, and the aerospace industry, in particular, that Government has shown commitment to the funding and sustainability of the company until breakeven. The recapitalisation will improve the company's cash flow and solvency position. The forecasted shareholder's equity for the 2013 financial year remains positive.

- The cash flow forecast incorporating the cash on hand at year -end, the cash receivable from the R700m recapitalisation and the short-term borrowings, which are expected to enable the company to have a positive cash position at 31 March 2013.

The Directors of the company are comfortable that DAe has sufficient cover for at least twelve months since balance sheet date for its liquidity needs due to the cash requirements being catered for via the financial guarantee given by the parent company and the further planned restructuring activities to reduce cash requirements in the operational activities.

Based on the above assessment the directors are confident that the necessary steps have been taken to ensure that the company is a going concern for at least twelve months from balance sheet date.

The ability of the company to continue as a going concern in the long term is dependent on:

- Continued financial support from the Shareholder.
- Recapitalisation by National Treasury as announced by the Minister of Finance.
- Continued successes to be achieved in the restructuring activities for the year ahead.

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

DENEL AEROSTRUCTURES SOC LTD SHARE CAPITAL

Denel Aerostructures SOC Ltd is a wholly owned company of Denel SOC Ltd.

The authority to issue shares vest 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 or issued share capital of the company for the financial year under review.

DIVIDENDS

No dividends are recommended for payment for the 2012 financial year (2011: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

The Annual Financial Statements for the year ending 31 March 2012 comply with International Financial Reporting Standards (IFRS).

AUDITORS

The auditors for the year under review were appointed by Denel SOC Ltd and were Ernst & Young Inc., with SizweNtsalubaGobodo as subcontracted auditors. The statutory auditors for the forthcoming year were confirmed at the AGM of the Shareholder held on for 19 July 2012.

DIRECTORS AND SECRETARY

The company secretary role is fulfilled by Ms Vaneesha Ravjee that 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 14 of the annual report.

EVENTS AFTER 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 2012 and 28 September. 2012.

6. STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| ASSETS | NOTES | 2012 | 2011 |
|---|-------|--------------------|---------------------|
| | | R | R |
| NON-CURRENT ASSETS | | 120,047,987 | 101,008,314 |
| • Property, plant and equipment | 8 | 120,047,987 | 101,008,314 |
| CURRENT ASSETS | | 211,374,352 | 242,860,280 |
| • Inventories | 10 | 55,583,471 | 94,468,105 |
| • Trade and other receivables | 11 | 155,783,881 | 148,001,741 |
| • Other financial assets | 12.1 | - | 383,434 |
| • Cash and short-term deposits | 13 | 7,000 | 7,000 |
| Assets classified as held for sale | 9 | 1,100,000 | 7,329,602 |
| TOTAL ASSETS | | 332,522,339 | 351,198,196 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| • Issued capital | 14 | 400 | 400 |
| • Share premium | 14 | 789,103,199 | 789,103,199 |
| • Other reserves | | - | - |
| • Accumulated loss | | (1,276,132,438) | (1,197,660,485) |
| Total equity attributable to equity holders of the parent | | (487,028,839) | (408,556,886) |
| Equity Portion of Shareholders loan | 15 | 528,013,800 | 346,598,172 |
| TOTAL EQUITY | | 40,984,961 | (61,958,714) |
| NON-CURRENT LIABILITIES | | 111,706,527 | 134,564,808 |
| • Interest bearing loans and borrowings | 16 | 109,086,482 | 123,127,561 |
| • Advance payments received | 17 | - | - |
| • Provisions | 18.1 | 2,620,045 | 11,437,247 |
| CURRENT LIABILITIES | | 179,830,851 | 278,592,102 |
| • Trade and other payables | 19 | 49,426,430 | 31,269,225 |
| • Interest bearing loans and borrowings | 16 | 65,513,706 | 167,389,349 |
| • Other financial liabilities | 12.2 | 2,659,830 | 7,644,151 |
| • Advance payments received | 17 | 26,605,362 | 31,584,367 |
| • Provisions | 18.2 | 35,625,523 | 40,705,010 |
| TOTAL LIABILITIES | | 291,537,378 | 413,156,910 |
| TOTAL EQUITY AND LIABILITIES | | 332,522,339 | 351,198,196 |

7. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | NOTES | 2012 | 2011 |
|---|-------|---------------------|----------------------|
| | | R | R |
| CONTINUING OPERATIONS | | | |
| • Turnover | 2 | 260,143,903 | 281,027,479 |
| • Cost of sales | 3 | (220,753,459) | (389,904,740) |
| GROSS PROFIT | | 39,390,444 | (108,877,261) |
| • Other income | 4 | 11,066,917 | 36,910,663 |
| • Other operating expenses | 3 | (124,527,816) | (151,307,967) |
| OPERATING LOSS | | (74,070,455) | (223,274,565) |
| • Finance costs | 6.1 | (4,410,429) | (13,982,554) |
| • Finance income | 6.2 | 8,931 | 1,922 |
| PROFIT/(LOSS) BEFORE TAX | | (78,471,953) | (237,255,197) |
| Loss for the year from continuing operations | | (78,471,953) | (237,255,197) |
| Discontinued operations | | - | - |
| LOSS FOR THE YEAR | | (78,471,953) | (237,255,197) |
| Other comprehensive income net of tax | | - | - |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | (78,471,953) | (237,255,197) |



8. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | NOTES | ISSUED CAPITAL | SHARE PREMIUM | ACCUMULATED LOSS | TOTAL |
|---------------------------------|-------|----------------|--------------------|------------------------|----------------------|
| BALANCE AT 1 APRIL 2011 | | 400 | 789,103,199 | (960,405,288) | (171,301,689) |
| Total comprehensive income | | | | (237,255,197) | (237,255,197) |
| • Profit/(loss) for the year | | | | (237,255,197) | (237,255,197) |
| • Other comprehensive income | | | | - | - |
| BALANCE AT 31 MARCH 2012 | | 400 | 789,103,199 | (1,197,660,485) | (408,556,886) |
| Total comprehensive income | | | | (78,471,953) | (78,471,953) |
| • Profit/(loss) for the year | | | | (78,471,953) | (78,471,953) |
| • Other comprehensive income | | | | - | - |
| BALANCE AT 31 MARCH 2012 | | 400 | 789,103,199 | (1,276,132,438) | (487,028,839) |

9. STATEMENT OF CASH FLOWS AS AT 31 MARCH 2012

| | NOTES | 2012 R | 2011 R |
|---|-----------|---------------|---------------|
| OPERATING ACTIVITIES | | | |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | | (66,402,087) | (99,242,564) |
| • Receipts from customers | | 261,814,871 | 435,317,369 |
| • Payments to suppliers and employees | | (318,836,455) | (511,890,600) |
| • Cash utilised in operations | 20.1 | (57,021,584) | (76,573,231) |
| • Increase/(decrease) in advance payments received | | (4,979,005) | (8,688,701) |
| • Interest paid | | (4,410,429) | (13,982,554) |
| • Interest received | | 8,931 | 1,922 |
| • Income tax paid | | - | - |
| INVESTING ACTIVITIES | | | |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | 903,181 | (4,682,855) |
| • Purchase of property, plant and equipment | 8 | (12,516,767) | (5,830,930) |
| • Proceeds from sale of property, plant and equipment | | 13,419,948 | 1,148,075 |
| Net cash flows before financing activities | | (65,498,906) | (103,925,419) |
| FINANCING ACTIVITIES | | | |
| NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES | | 65,498,906 | 74,601,006 |
| • Repayments of borrowings | | - | - |
| • Proceeds from borrowings | | 65,498,906 | 74,601,006 |
| • Proceeds from share capital issued | | - | - |
| Net (decrease)/increase in cash and cash equivalents | | - | (29,324,413) |
| Cash and cash equivalents: | | | |
| At the beginning of the year | | 7,000 | 29,331,413 |
| AT THE END OF THE YEAR | 13 | 7,000 | 7,000 |



10. ACCOUNTING POLICIES

CORPORATE INFORMATION

Denel Aerostructures SOC Ltd is a company incorporated and domiciled in South Africa. 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.

1.1 STATEMENT OF COMPLIANCE

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

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, and investment properties, 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Changes in accounting policies and disclosures

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

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

| STANDARD/ INTERPRETATION | TITLE | EFFECTIVE DATE | IMPACT AND APPLICATION |
|--------------------------|---|--------------------------------|---|
| IAS 19 | Employee Benefits (Amendment) | 1 January 2013 (early adopted) | No impact financial results or position nor on disclosure |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 (early adopted) | Not relevant. |

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

1.2 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 company's annual financial statements:

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

Denel Aerostructures SOC Ltd 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.

Denel Aerostructures SOC Ltd 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.

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

- Labour hours are estimated based on a review of the outstanding functionalities and the experience of the project managers in conducting similar processes, as well as their understanding of the requirements. In cases where the process requires new and unique work, anticipated hours are used.
- The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content.
- Manufacturing overheads are allocated pro rata according to IAS 11 Construction Contracts. Indirect costs are not specifically allocated to a product or an activity.

- Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases.
- Inflation and rates of exchange adjustments are made based on information supplied by reputable banks.
- Technical obsolescence on aircraft and missile contracts where rapidly changing technology may result in a re-engineering requirement on these systems.

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

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.

SHAREHOLDER'S LOAN

The following assumptions have been used in determining the split between the equity and liability components of the shareholder's loans:

- The current business plan of Denel Aerostructures SOC Ltd only has a 10 year view and it is difficult to determine when the net equity of Denel Aerostructures SOC Ltd will be positive again and in effect when the loans will become payable. Based on the best estimates, the loan will become payable in 30 years and this was used as the discounting period.
- A discount rate of 9,81% was used as this is the risk adjusted rate at which Denel SOC Ltd, the parent company, will be able to get funding.

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.

1.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.3.1 REVENUE RECOGNITION

SALE OF GOODS AND SERVICES

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

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

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

LONG-TERM CONTRACTS

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

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

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

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

Contract revenue comprises:

- a) The initial amount of revenue agreed in the contract; and
- b) Variations in contract work and incentive payments:
 - i) To the extent that it is probable that they will result in revenue; and
 - ii) They are capable of being reliably measured.
- c) A claim is an amount that Denel Aerostructures SOC Ltd seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:
 - i) Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
 - ii) The amount that is probable will be accepted by the customer and can be measured reliably.

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

1.3.2 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a component of Denel Aerostructures SOC Ltd business that has either been

disposed or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to its subsequent disposal.

Assets are classified as non-current assets held for sale if the carrying amount would be recovered principally through sale and not continuing use. A business entity to be partially disposed, which remains to be consolidated, is not classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to its subsequent disposal.

Impairment losses on initial classification as held for sale are recognised in profit or loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are recognised in profit or loss.

1.3.3 PROVISIONS

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

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

1.3.4 TAXES

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

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

Deferred tax is provided in full using the liability method for temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply for the year when the asset is realised or the liability is settled based on tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will realise.

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

Secondary Tax on Companies (STC) that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.3.5 FINANCIAL INSTRUMENTS

Denel Aerostructures SOC Ltd initially recognises financial assets and liabilities on the trade date at which Denel Aerostructures SOC Ltd 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

Denel Aerostructures SOC Ltd has the following classes: financial assets at fair value through profit or loss, as well as loans and receivables (including insurance receivables) and cash and cash equivalents.

LOANS RECEIVABLE

Loans receivable are subsequently measured at amortised cost. The amortised cost is determined using the effective interest rate method. Where a loan has been impaired, the impairment loss is recognised as an expense in profit or loss in the period in which the impairment has occurred.

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

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

BORROWINGS

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

TRADE AND OTHER PAYABLES

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

DERIVATIVE FINANCIAL INSTRUMENTS

The 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. Denel Aerostructures SOC Ltd 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 Denel Aerostructures SOC Ltd has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce except if such currency is a common currency. Denel 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 Denel Aerostructures SOC Ltd.

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.

DE-RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a Denel Aerostructures SOC Ltd 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:
 - » Has transferred substantially all the risks and rewards of the asset of ownership; or
 - » 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 Denel Aerostructures SOC Ltd could be required to repay.

FINANCIAL LIABILITIES

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

1.3.6 FOREIGN CURRENCIES

FUNCTIONAL AND PRESENTATION CURRENCY

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

RECORDING OF FOREIGN TRANSACTIONS

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

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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

1.3.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

DEPRECIATION

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

The estimated useful lives are as follows:

| | |
|------------------------------------|---------------|
| • 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.

DE-RECOGNITION

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

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

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

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.

1.3.8 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 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.

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

1.3.9 INTANGIBLE ASSETS

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite

life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

RESEARCH AND DEVELOPMENT COSTS

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

The amortisation of capitalised development costs commences once the product or service becomes available for sale or use. Capitalised development costs are amortised over the period of expected economic benefit.

PATENTS

Patents are recognised at cost if it is probable that future economic benefits will flow to the company. Amortisation is charged on a systematic basis over the estimated useful lives of patents, where its legal rights determine the amortisation periods.

COMPUTER SOFTWARE

Computer software is measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a systematic basis over the estimated useful life of the software. The useful life of computer software is estimated to be between three and five years. Annual license fees on software are expensed in the year of accrual.



1.3.10 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.

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 Denel Aerostructures SOC Ltd 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.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

REVERSALS OF IMPAIRMENT

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

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

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

1.3.11 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.

1.3.12 ADVANCE PAYMENTS RECEIVED FROM SALES CONTRACTS

In the case of comprehensive and/or long-term sales contracts, advance payments are negotiated with local and foreign clients. These funds are used to finance the execution of contracts which include advance payments to suppliers, finance long-lead inventory items and work-in-progress. Guarantees are provided to clients for advance payments received. Advance payments received are recognised as a current liability. Advance payments received in foreign currency are recognised at the ruling spot rate on the date of receipt. Guarantees provided are disclosed as contingent liabilities.

1.3.13 INSURANCE CONTRACTS

An insurance contract is a contract that transfers significant insurance risk from policyholder to insurer. An assessment of whether recognised insurance liabilities are adequate is performed at each reporting date, using current estimates of future cash flows under insurance contracts. If the assessment shows that the carrying amount of insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

1.3.14 HEDGE ACCOUNTING

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

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

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



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

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

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

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

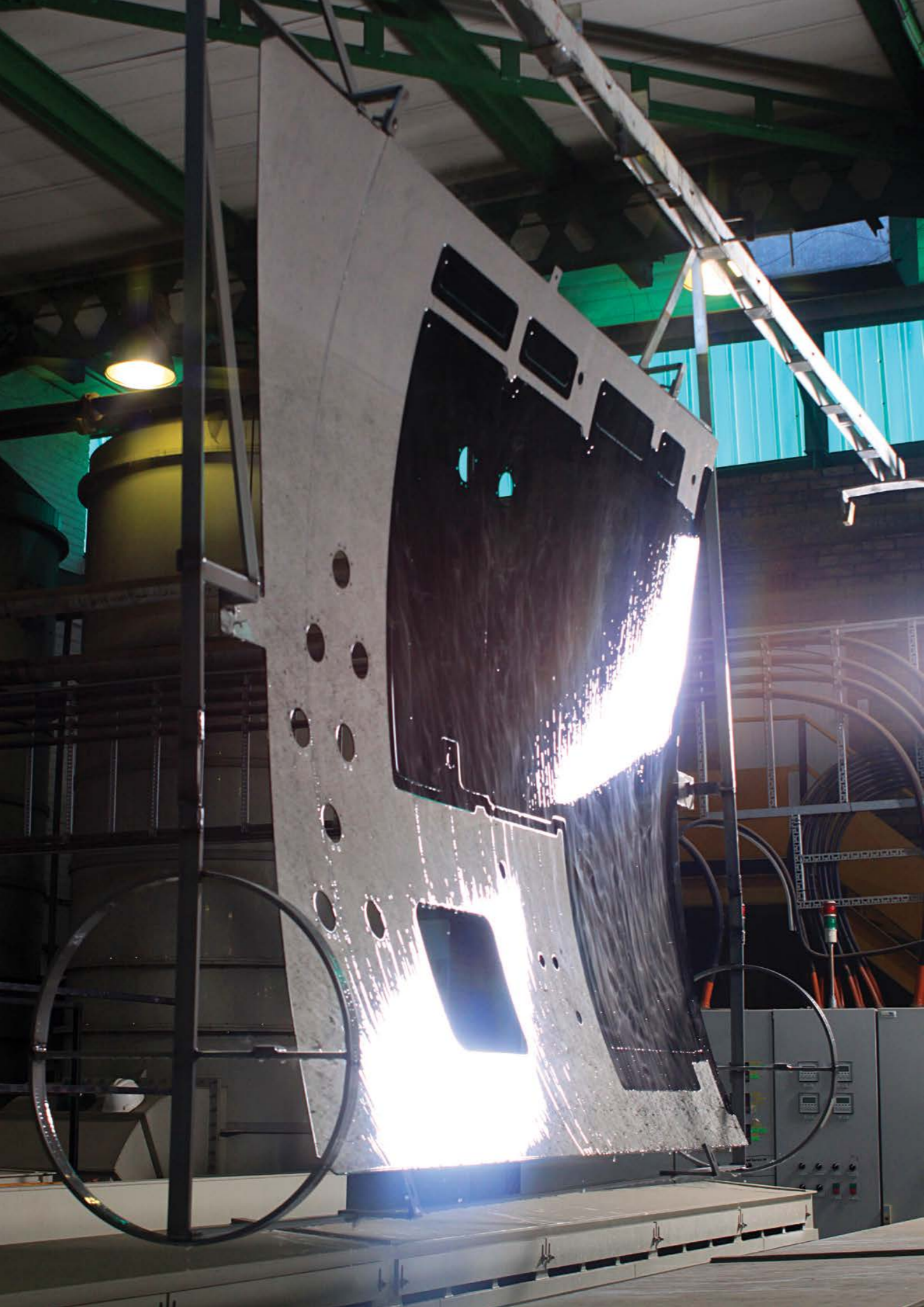
Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the forecast transaction is no longer expected to occur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

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

At the date of authorisation of Denel Aerostructures SOC Ltd annual financial statements for the year ended 31 March 2012, the following standards and interpretations were in issue but not yet effective:

| STANDARD OR INTERPRETATION | TITLE | ISSUE DATE | EFFECTIVE DATE |
|----------------------------|--|---------------|--|
| IFRS 9 | Financial Instruments | November 2009 | 1 January 2015 |
| IFRS 11 | Joint Arrangements | May 2011 | 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | May 2011 | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | May 2011 | 1 January 2013 |
| IFRS 7 | Financial Instruments: Disclosures | December 2011 | 1 January 2013 |
| | <ul style="list-style-type: none"> • Amendments enhancing disclosures about offsetting of financial assets and financial liabilities. » Financial Instruments: Disclosures • Amendments requiring disclosures about the initial application of IFRS 9 | December 2011 | 1 January 2015 (or otherwise when IFRS 9 is first applied) |
| IAS 1 | Presentation of Financial Statements | June 2011 | 1 July 2012 |
| | <ul style="list-style-type: none"> • — Amendments to revise the way other comprehensive income is presented | | |
| IAS 27 | Consolidated and Separate Financial Statements | May 2011 | 1 January 2013 |
| | <ul style="list-style-type: none"> • Reissued as IAS 27 Separate Financial Statements (as amended in 2011) | | |
| IAS 28 | Investments in Associates | May 2011 | 1 January 2013 |
| | <ul style="list-style-type: none"> • Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) | | |
| IAS 32 | Financial Instruments: Presentation | December 2011 | 1 January 2014 |
| | <ul style="list-style-type: none"> • Amendments to application guidance on the offsetting of financial assets and financial liabilities | | |





IFRS 9 FINANCIAL INSTRUMENTS

The new standard introduces new requirements for classifying and measuring financial assets. The new standard forms part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. Denel Aerostructures SOC Ltd plans to adopt the standard only once the other parts of the project are available to enable Denel Aerostructures SOC Ltd to adopt them simultaneously. Denel Aerostructures SOC Ltd is in the process of evaluating the impact on the financial statements. The following are the main features of the standard:

At initial recognition, all financial assets (including hybrid contracts with a financial asset host) are measured at fair value.

IFRS 13 FAIR VALUE MEASUREMENT

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

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

IAS 1 FINANCIAL STATEMENT PRESENTATION – PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on Denel Aerostructures SOC Ltd financial position or performance.

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

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

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

IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (AS REVISED IN 2011)

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

IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

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

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

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| 2 | REVENUE | 2012 | 2011 |
|---|--|-------------|-------------|
| | | R | R |
| | Turnover | 260,143,903 | 281,027,479 |
| 3 | COST OF SALES AND OTHER OPERATING EXPENSES | 2012 | 2011 |
| | | R | R |
| | TOTAL COST OF SALES FROM OPERATIONS | 220,753,459 | 389,904,740 |
| | Cost of sales | 220,753,459 | 389,904,740 |
| | TOTAL OTHER OPERATING EXPENSES FROM OPERATIONS | 124,527,816 | 151,307,967 |
| | Operating expenses | 124,527,816 | 151,307,967 |
| | | 345,281,275 | 541,212,707 |

Cost of sales and other operating expenses are arrived at after taking the following items into account:

| | | | |
|--|--|--------------|--------------|
| | IMPAIRMENT RAISED/(REVERSED) | (73,016,092) | (29,172,815) |
| | • Property, plant and equipment (refer note 8) | (23,559,970) | 3,633,078 |
| | • Impairment Accounted for in FY12 - IFRS5 | 915,260 | - |
| | • Impairment Raised | 521,011 | - |
| | • Inventories written off (refer note 10) | (50,862,097) | (32,620,954) |
| | • Trade and other receivables | (30,296) | (184,939) |
| | AUDITORS' REMUNERATION | 1,857,803 | 2,509,184 |
| | • Current year | 1,600,000 | 1,892,406 |
| | • Previous year's under accrual | - | 510,778 |
| | • Other | 257,803 | 106,000 |
| | DEPRECIATION (REFER NOTE 8) | 13,121,793 | 14,587,604 |
| | • Buildings | 300,063 | 144,945 |
| | • Plant and machinery | 12,645,456 | 14,322,971 |
| | • Vehicles and office furniture | 93,107 | 63,186 |
| | • Computer equipment | 83,167 | 56,502 |
| | OPERATING EXPENSES FOR INVESTMENT PROPERTIES | - | - |
| | OPERATING LEASE PAYMENTS | 16 326 130 | 17 621 691 |
| | • Plant and machinery | 741,217 | 1,212,456 |
| | • Buildings | 13,247,197 | 14,085,663 |
| | • ICT Rental contracts | 1,163,957 | 1,163,957 |
| | • Computer equipment | 1,173,759 | 1,159,615 |

| | | | |
|--|---|-------------|-------------|
| | DIRECTORS' REMUNERATION ² | 4,317,062 | 2,521,501 |
| | • Executive directors | 4,317,062 | 2,521,501 |
| | CONSULTATION FEES | 52,351 | 1,617,641 |
| | COSTS OF INVENTORIES RECOGNISED AS AN EXPENSE | 152,285,572 | 147,917,503 |
| | LOSS ON DISPOSAL OF ASSETS | 18,043 | 37,295 |
| | • Property, plant and equipment | 18,043 | 37,295 |
| | RESEARCH AND DEVELOPMENT COSTS ¹ | 48,475,238 | 21,605,151 |
| | STAFF COSTS | 160,825,653 | 180,249,541 |
| | • Services costs | 120,018,623 | 151,129,917 |
| | • Staff and related provisions | 21,267,329 | 11,679,924 |
| | • Medical fund contributions | 5,982,701 | 7,581,105 |
| | • Termination benefits paid | 453,098 | - |
| | • Pension costs: Defined contribution plan | 13,103,902 | 9,858,595 |

1. The research and development costs are customer funded.

2. Detailed remuneration is fully disclosed in note 23 (related parties). Executive directors' remuneration included is from date of appointment as director. The non-executive directors are paid by Denel SOC Ltd.

| 4 | OTHER OPERATING INCOME | 2012 | 2011 |
|---|---|------------|------------|
| | | R | R |
| | Net gains on financial instruments (refer note 5) | 3,021,156 | 30,301,515 |
| | Profit on disposal of property, plant and equipment | 4,729,388 | 668,823 |
| | Other ¹ | 3,316,373 | 5,940,325 |
| | | 11,066,917 | 36,910,663 |

1. Other is mainly made up of scrap sales, insurance claims, and discount received.

| 5 | NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS | 2012 | 2011 |
|---|---|-------------|--------------|
| | | R | R |
| | Net foreign exchange differences | 3,021,156 | 30,301,515 |
| | • Losses on settled transactions | (5,005,619) | (15,096,602) |
| | • Gains on settled transactions | 7,163,902 | 24,154,542 |
| | • Losses on fair value adjustments | (3,037,273) | (19,904,893) |
| | • Gains on fair value adjustments | 3,900,146 | 41,148,468 |
| | | 3,021,156 | 30,301,515 |

| 6 | NET FINANCE COST | 2012 | 2011 |
|---|--|------------------|-------------------|
| | | R | R |
| | The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables): | | |
| | 6.1 FINANCE COSTS | | |
| | • Current interest bearing borrowings | 120,000 | - |
| | • Inter-Denel Aerostructures SOC Ltd finance costs | 4,290,429 | 13,982,554 |
| | • Total finance costs | 4,410,429 | 13,982,554 |
| | 6.2 FINANCE INCOME | | |
| | • Gross interest received | 8,931 | 1,922 |
| | • Total finance income | 8,931 | 1,922 |
| | NET FINANCE COSTS | 4,401,498 | 13,980,632 |

| 7 | TAXATION EXPENSE | 2012 | 2011 |
|---|--|----------------------|----------------------|
| | | R | R |
| | The calculated tax losses available for offset against future taxable income are as follows: | | |
| | Calculated tax losses | 1,263,360,937 | 1,164,306,708 |
| | Capital gains tax assessed losses | - | - |
| | Calculated tax losses | 1,263,360,937 | 1,164,306,708 |
| | Calculated tax losses utilised | - | - |
| | NET AVAILABLE CALCULATED TAX LOSSES | 1,263,360,937 | 1,164,306,708 |

No provision for SA Normal tax has been made as the company is in a calculated tax loss position.



| 8 | PROPERTY, PLANT AND EQUIPMENT | LAND AND BUILDINGS | CAPITALISED WORK IN PROGRESS | PLANT AND MACHINERY | VEHICLES AND OFFICE FURNITURE | COMPUTER EQUIPMENT | TOTAL |
|---|--|--------------------|------------------------------|---------------------|-------------------------------|--------------------|--------------------|
| | | R | R | R | R | R | R |
| | 2012 | | | | | | |
| | Carrying value at 1 April | 1,558,791 | 165,963 | 98,609,999 | 407,950 | 265,611 | 101,008,314 |
| | Additions | 93,617 | 146,637 | 12,182,702 | - | 93,811 | 12,516,767 |
| | Disposals | - | - | (1,361,789) | - | (17,212) | (1,379,001) |
| | Impairment reversed (written back) | - | - | 23,559,970 | - | - | 23,559,970 |
| | Additional Impairments | - | - | (1,436,271) | - | - | (1,436,271) |
| | Transfer to assets held for sale | - | - | (1,100,000) | - | - | (1,100,000) |
| | Depreciation for the year (refer note 3) | (300,063) | - | (12,645,456) | (93,107) | (83,167) | (13,121,793) |
| | CARRYING VALUE AT 31 MARCH | 1,352,345 | 312,600 | 117,809,155 | 314,843 | 259,043 | 20,047,986 |
| | Cost | 1,797,353 | 312,600 | 303,543,778 | 1,678,884 | 7,138,159 | 314,470,774 |
| | Accumulated depreciation and impairment | (445,008) | - | (185,734,623) | (1,364,041) | (6,879,116) | (194,422,788) |
| | CARRYING VALUE AT 31 MARCH | 1,352,345 | 312,600 | 117,809,155 | 314,843 | 259,043 | 120,047,986 |
| | 2011 | | | | | | |
| | Carrying value at 1 April | - | 8,939,256 | 112,136,927 | - | 174,069 | 121,250,252 |
| | Additions | 1,703,736 | - | 3,443,978 | 477,586 | 205,629 | 5,830,929 |
| | Disposals | - | - | (458,547) | (6,450) | (57,585) | (522,582) |
| | Transfer | - | (2,383,678) | 2,383,678 | - | - | - |
| | Transfer to assets held for sale | - | (2,756,536) | (4,573,066) | - | - | (7,329,602) |
| | Impairment for the year (refer note 3) | - | (3,633,079) | - | - | - | (3,633,079) |
| | Depreciation for the year (refer note 3) | (144,945) | - | (14,322,971) | (63,186) | (56,502) | (14,587,604) |
| | CARRYING VALUE AT 31 MARCH | 1,558,791 | 165,963 | 98,609,999 | 407,950 | 265,611 | 101,008,314 |
| | Cost | 1,703,736 | 165,963 | 302,964,522 | 1,700,940 | 7,075,717 | 313,610,878 |
| | Accumulated depreciation and impairment | (144,945) | 0 | (204,354,523) | (1,292,990) | (6,810,106) | (212,602,564) |
| | CARRYING VALUE AT 31 MARCH | 1,558,791 | 165,963 | 98,609,999 | 407,950 | 265,611 | 101,008,314 |

Registers of property, plant and equipment are open for inspection.

Owing to the continued losses, 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; there was an impairment reversal with a net effect of R24m on a CMS router machine

During the 2009 financial year DAe acquired a machine ("CMS Machine and the Vacume Cup Tooling") for the purposes of manufacturing WFF and TS Airbus components. DAe has two such CMS machines, with the other one being utilised by the Composites Department. However, due to specification changes made, the machine could no longer be used for its intended purpose. This resulted in the piece of equipment being fully impaired in that year.

Over the period since this impairment, there has been ongoing effort by the sheetmetal department in order to reindustrialise the machine. DAe management has now assessed that the reindustrialisation has reached a point whereby the CMS machine can now be used for the Airbus contract. The machine will also be utilised for cutting composite components when the A2 facility move is executed. This will result in the other CMS machine being off-line for approximately 6 months. DAe management made the decision to consider the reversal of impairment of the CMS machine as a direct result of this.

9 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

| ASSETS HELD FOR SALE | 2012 | 2011 |
|-------------------------------|------------------|------------------|
| | R | R |
| Assets | | |
| Property, plant and equipment | 1,100,000 | 7,329,602 |
| | 1,100,000 | 7,329,602 |

Denel Aerostructures is in the process of selling the shot peening machine due to the current and projected utilisation. Denel Aerostructures received an offer of R1 100 000, the shot peening machine was impaired with R915 260 to ensure the book value agrees with the fair value less cost to sell.

| 10 INVENTORIES | 2012 | 2011 |
|---|-------------------|--------------------|
| | R | R |
| INVENTORIES ARE VALUED AT THE LOWER OF COST AND NET REALISABLE VALUE AND IS CATEGORISED AS FOLLOWS: | | |
| Raw materials and bought-out components | 28,543,629 | 40,224,725 |
| Work in progress | 23,282,076 | 49,994,489 |
| Contracts in progress | 2,131,040 | 2,416,570 |
| Good in Transit in bound | 1,626,726 | 1,832,321 |
| | 55,583,471 | 94,468,105 |
| ACCUMULATED IMPAIRMENT | 57,817,466 | 108,679,563 |

The amount of write-down of inventories recognised as an expense is R152 285 572 (2011: R147 917 503) which is recognised in cost of sales, this is due to excess stock that was sold.

| 11 TRADE AND OTHER RECEIVABLES | 2012 | 2011 |
|---|--------------------|--------------------|
| | R | R |
| FINANCIAL ASSETS | 150,745,660 | 146,283,826 |
| • Trade receivables | 31,259,108 | 17,762,467 |
| • Trade receivables: Inter-Denel Aerostructures SOC Ltd | 755,241 | 1,770,160 |
| • Work performed not yet invoiced | 118,382,650 | 118,175,146 |
| • Other receivables | 348,661 | 8,576,053 |
| NON-FINANCIAL ASSETS | 5,038,221 | 1,717,915 |
| Prepayments and advances made | 4,989,561 | 1,693,385 |
| Other receivables | 48,660 | 24,530 |
| | 155,783,881 | 148,001,741 |

| | | |
|------------------------|----------|----------------|
| Accumulated impairment | | |
| Financial assets | - | 189,528 |
| | - | 189,528 |

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. Denel Aerostructures SOC Ltd expects to receive the payment of the Indemnity claim in December 2012.

Prepayments made during the period were for the purchases of inventory and property, plant & equipment.

| IMPAIRMENT ACCOUNT RECONCILIATION | | |
|-----------------------------------|-----------|----------------|
| INDIVIDUALLY IMPAIRED | | |
| Balance at 1 April | 189,528 | 1,185,047 |
| Written off as uncollectible | (159,232) | (810,580) |
| Impairment losses reversed | (30,296) | (184,939) |
| | - | 189,528 |



| 12 | OTHER FINANCIAL ASSETS AND LIABILITIES | 2012 | 2011 |
|------|---|-----------|-----------|
| | | R | R |
| 12.1 | OTHER FINANCIAL ASSETS | | |
| | Derivatives | - | 383,434 |
| | Foreign exchange contracts | - | 383,434 |
| | | - | 383,434 |
| 12.2 | OTHER FINANCIAL LIABILITIES | | |
| | Derivatives | 167,641 | - |
| | • Foreign exchange contracts | 167,641 | - |
| | Embedded derivatives | 2,492,189 | |
| | • Foreign exchange embedded derivatives | 2,492,189 | 7,644,152 |
| | | 2,659,830 | 7,644,152 |
| 12.3 | ASSET MEASUREMENT AT FAIR VALUE - LEVEL 2 | | |
| | Foreign exchange contracts | 167,641 | 383,434 |
| | Foreign exchange embedded derivatives | 2,492,189 | 7,644,152 |

Denel Aerostructures SOC Ltd uses the following fair value 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.

| 13 | CASH AND CASH EQUIVALENTS | 2012 | 2011 |
|----|------------------------------|-------|-------|
| | | R | R |
| | Cash and short-term deposits | 7,000 | 7,000 |
| | | 7,000 | 7,000 |

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates.

Inter Denel Aerostructures SOC Ltd Receivables/Payables earn interest at market related rates. This cash is held by Denel Treasury.

| 14 | ISSUED CAPITAL | 2012 | 2011 |
|----|----------------------------|-------------|-------------|
| | | R | R |
| | AUTHORISED | | |
| | Ordinary shares of R1 each | 400 | 400 |
| | ISSUED | | |
| | Shares at par value | | |
| | Class A ordinary shares | 400 | 400 |
| | SHARE PREMIUM | 789,103,199 | 789,103,199 |

A Recapitalisation of R700 000 000 for Denel Aerostructures SOC Ltd has been announced by the Finance Minister in his budget speech in February 2012.

During the previous year, a holder of the non-controlling interest (SAAB) in Denel Aerostructures SOC Ltd exercised its share put option. Denel had to buy back 20% shareholding of the issued shares of Denel Aerostructures SOC Ltd. Original capital contribution and a nominal value of shares totaling R66 000 000m was repaid on 1 April 2011. Denel now holds 100% of the issued shares of Denel Aerostructures SOC Ltd.

| 15 | EQUITY PORTION OF SHAREHOLDERS LOAN | 2012 | 2011 |
|----|-------------------------------------|-------------|-------------|
| | | R | R |
| | Balance at 1 April | 346,598,172 | - |
| | Reclassified during the year | 181,415,628 | 346,598,172 |
| | | 528,013,800 | 346,598,172 |



| 16 | LOANS AND BORROWINGS | 2012 | 2011 |
|----|-----------------------------|-------------|-------------|
| | UNSECURED LOAN | 109,086,482 | 123,127,561 |
| | Unsecured loan from SAAB AB | 100,863,333 | 100,863,333 |

The R100 863 333 SAAB AB loan is currently under negotiation as SAAB AB is no longer a shareholder of Denel Aerostructures SOC Ltd. the original re-payment terms in terms of the agreement was 5 years from inception of the agreement.

| | | | |
|--|--|---------------|---------------|
| | Unsecured loan from Denel SOC Ltd | 8,223,149 | 22,264,228 |
| | Non-interest bearing non-current share holders borrowing | 536,236,949 | 368,862,400 |
| | Less: Equity portion of borrowing | (528,013,800) | (346,598,172) |

During the current financial year Denel SOC Ltd converted R167 389 349m from interest bearing to non-interest bearing borrowings, as Denel Aerostructures SOC Ltd's shareholder. Non-Interest bearing borrowings therefore increased to R536 236 949m (2011: R368 862 400m), of the R536 236 949m, R528 013 800m of the Denel Shareholder Loan to be converted to Equity.

| | | | |
|--|-----------------------------------|--------------------|--------------------|
| | Non-current loans and borrowings | 109,086,482 | 123,127,561 |
| | Current loans and borrowings | 65,513,706 | 167,389,349 |
| | Bank overdraft | - | - |
| | Unsecured loan from Denel SOC Ltd | 65,513,706 | 167,389,349 |
| | TOTAL LOANS AND BORROWINGS | 174,600,188 | 290,516,910 |

The interest bearing borrowing relates to the overdraft facility utilised during the current financial year. The interest bearing borrowing have been deferred until Denel Aerostructures SOC Ltd is in a positive net equity position.

| Summary of maturity of borrowings | | | |
|-----------------------------------|---------------------------------|--------------------|--------------------|
| | Maturing within 12 months | - | 14,800 |
| | Maturing within 12 to 60 months | 100,863,333 | 100,863,333 |
| | Shareholder loan | 73,736,855 | 189,653,577 |
| | | 174,600,188 | 290,531,710 |

| Weighted average effective interest rates | | | |
|---|----------------------------------|------|------|
| | Unsecured loan from shareholders | 8.0% | 8.0% |

| 17 | ADVANCE PAYMENTS RECEIVED | 2012 | 2011 |
|----|---------------------------|-------------------|-------------------|
| | | R | R |
| | Current | 26,605,362 | 31,584,367 |
| | | 26,605,362 | 31,584,367 |

Advance payments received are not financial instruments and represent contracts in progress which progress billings exceed cost incurred plus recognised profit or loss.

| 18 | PROVISIONS | 2012 | 2011 |
|------|--------------------------------------|-------------------|-------------------|
| | | R | R |
| 18.1 | NON-CURRENT PROVISIONS | 2,620,045 | 11,437,247 |
| | Contract risks and onerous contracts | 2,620,045 | 11,437,247 |
| 18.2 | CURRENT PROVISIONS | 35,625,523 | 40,705,010 |
| | Contract risks and onerous contracts | 11,273,339 | 19,076,423 |
| | Product warranty and support | 2,093,158 | - |
| | Staff related - Performance bonus | 21,965,583 | 19,091,083 |
| | Staff related - Retrenchment | 293,443 | 2,537,504 |
| | | 38,245,568 | 52,142,257 |



| RECONCILIATION | | | | | | |
|------------------------------------|---------------------------------------|---|------------------------------------|---|---------------------------------|--------------|
| | STAFF RELATED ACCUMULATED LEAVE | CONTRACT RISKS AND ONEROUS CONTRACTS | PRODUCT WARRANTY AND SUPPORT | STAFF RELATED - PERFORMANCE BONUS | STAFF RELATED - RETRENCHMENT | TOTAL |
| 2012 | | | | | | |
| Balance at 1 April | - | 30,513,670 | - | 19,091,083 | 2,537,504 | 52,142,257 |
| Realised | - | (19,302,062) | - | (19,091,083) | (2,430,946) | (40,824,091) |
| Unused amounts reversed | - | (7,100,036) | - | - | - | (7,100,036) |
| Charged to the income statement | - | 9,781,812 | 2,093,158 | 21,965,583 | 186,885 | 34,027,438 |
| | - | 13,893,384 | 2,093,158 | 21,965,583 | 293,443 | 38,245,568 |
| 2011 | | | | | | |
| Balance at 1 April | 10,384,449 | 44,777,255 | - | - | 15,625,484 | 70,787,188 |
| Realised | (10,866,561) | (14,228,173) | - | - | (26,478,750) | (51,573,484) |
| Unused amounts reversed | (6,744,790) | (6,819,035) | - | - | (4,138,158) | (17,701,983) |
| Charged to the income statement | 7,226,902 | 6,783,623 | - | 19,091,083 | 17,528,928 | 50,630,536 |
| | - | 30,513,670 | - | 19,091,083 | 2,537,504 | 52,142,257 |

CONTRACT RISKS AND ONEROUS CONTRACTS

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

PRODUCT WARRANTY AND SUPPORT

The provision for product warranty comprises legal and constructive obligations of Denel Aerostructures SOC Ltd in respect of products delivered that are still under

warranty. The provision for product recall comprises the estimated cost that Denel Aerostructures SOC Ltd will incur in the event of a specific product recall.

RETRENCHMENT COSTS

As a result of the restructuring within Denel Aerostructures SOC Ltd, certain employees have been identified for retrenchment and will be awarded retrenchment packages. The retrenchment provision has been calculated based on the remuneration and the number of years of service of the affected persons as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R293 443 (2011: R2 537 504).

VARIABLE REMUNERATION

Provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is R21 965 583 (2011: R19 091 083).

| 19 | TRADE AND OTHER PAYABLES | 2012 | 2011 |
|----|--|-------------------|-------------------|
| | | R | R |
| | FINANCIAL LIABILITIES | 49,426,430 | 31,269,225 |
| | Trade payables | 24,223,343 | 11,039,777 |
| | Trade payables: Inter-Denel Aerostructures SOC Ltd | 5,472,904 | 3,086,761 |
| | Other accruals | 19,730,183 | 17,142,687 |
| | | 49,426,430 | 31,269,225 |

Trade payables are non-interest bearing and are normally settled between 30 and 90 days. Other payables are also non-interest bearing, and are settled as they fall due in accordance with respective agreements. Interest payable is settled in accordance with terms (refer note 23).



| 20 | NOTES TO THE CASH FLOW STATEMENT | 2012 | 2011 |
|------|---|---------------|---------------|
| | | R | R |
| 20.1 | RECONCILIATION OF PROFIT WITH CASH RETAINED FROM OPERATIONS | | |
| | Net profit/(loss) before tax | (78,471,953) | (237,255,197) |
| | ADJUSTED FOR: | (27,809,330) | (14,660,921) |
| | (Profit) on disposal of property, plant and equipment | (4,711,345) | (631,528) |
| | Depreciation ¹ | 13,121,793 | 14,587,604 |
| | Remeasurement of derivatives | 551,075 | 13,562,691 |
| | Remeasurement of embedded derivatives | (5,151,963) | (41,148,467) |
| | Interest paid (refer note 6) | 4,410,429 | 13,982,554 |
| | Interest received (refer note 6) | (8,931) | (1,922) |
| | (Decrease) in provisions | (13,896,689) | (18,644,931) |
| | Additional Impairments | 1,436,271 | |
| | Impairment reversed on property, plant and equipment 1 | (23,559,970) | 3,633,078 |
| | Operating loss before changes in net current assets | (106,281,283) | (251,916,118) |
| | CHANGES IN NET CURRENT ASSETS: | 49,259,699 | 175,342,887 |
| | Decrease in inventories | 38,884,634 | 138,988,567 |
| | (Increase) in receivables | (7,782,140) | 120,833,767 |
| | Increase in trade and other payables | 18,157,205 | (84,479,447) |
| | CASH UTILISED IN OPERATIONS | (57,021,584) | (76,573,231) |

¹ Refer note 3

| 21 | COMMITMENTS | 2012 | 2011 |
|----|-----------------------------|------------|-----------|
| | | R | R |
| | CAPITAL COMMITMENTS | | |
| | Approved and contracted for | 19,847,837 | 6,692,520 |
| | Land and buildings | - | 32,261 |
| | Plant and machinery | 19,847,837 | 6,660,259 |
| | | 19,847,837 | 6,692,520 |

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

CONTINGENT LIABILITIES CONTRACT LOSSES

Denel Aerostructures SOC Ltd holds contracts underwritten by external parties. These contracts have a total approximate value of R1 033 521 669 and an estimated contract losses of approximately R263 576 623 (2010: R1 400 000 000) 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 Aerostructures entity in the long term. Denel Aerostructures SOC Ltd 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.

| 22 | NON-CANCELLABLE LEASES | PLANT AND MACHINERY | VEHICLES AND OFFICE FURNITURE | COMPUTER EQUIPMENT | TOTAL |
|----|------------------------|---------------------|-------------------------------|--------------------|-------|
| | | R | R | R | R |
| | OPERATING LEASES | | | | |

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

| | 2012 | | | | |
|--|----------------------------|------------|---|-----------|------------|
| | Less than one year | 708,237 | - | 1,173,759 | 1,881,997 |
| | Between one and five years | 3,658,867 | - | 2,164,958 | 5,823,825 |
| | More than five years | 2,456,079 | - | - | 2,456,079 |
| | | 6,823,183 | - | 7,159,331 | 10,161,901 |
| | 2011 | | | | |
| | Less than one year | - | - | - | - |
| | Between one and five years | 1,229,251 | - | 1,272,993 | 2,502,244 |
| | More than five years | 10,358,286 | - | - | 10,358,286 |
| | | 11,587,537 | - | 1,272,993 | 12,860,530 |



23 RELATED PARTIES

Related party transactions are disclosed in terms of the requirements of the relevant standard. The materiality has been considered in the disclosure of these transactions. Amounts smaller than R1 000 000 have not been included in the table below.

NATIONAL GOVERNMENT AND STATE CONTROLLED ENTITIES

Denel Aerostructures SOC Ltd 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 following transactions were carried out with related parties:

| 23 | RELATED PARTIES (CONTINUED) | NATIONAL GOVERNMENT | MAJOR NATIONAL PUBLIC ENTITIES | BETWEEN THE COMPANY AND ITS SUBSIDIARIES | ASSOCIATED COMPANIES | OTHER RELATED PARTIES |
|----|---------------------------------|------------------------|---|---|-------------------------|-----------------------------|
| | | | | | | |
| | Purchases of goods | - | 49,350 | - | - | - |
| | Sales of goods | 118,782,844 | 23,558 | 13,081,223 | 3,868,166 | - |
| | Services rendered | - | - | 1,076,711 | - | - |
| | Services received | 8,800 | 20,959 | 42,584,292 | - | - |
| | Lease payments | - | 960 | 13,247,197 | - | - |
| | Interest paid | - | - | 4,290,429 | - | - |
| | Outstanding balances payable | 118,382,650 | - | 207,223,559 | - | - |
| | Outstanding balances receivable | - | - | 755,241 | - | - |
| | 2011 | | | | | |
| | Sales of goods | 115,854,792 | - | 13,657,281 | 11,419,589 | - |
| | Services rendered | 400,512 | - | 3,331,694 | - | - |
| | Services received | 4,455 | 126,827 | 30,272,086 | - | 21,059,499 |
| | Lease payments | - | 2,348 | 14,085,663 | - | - |
| | Interest paid | - | - | 13,982,554 | - | - |
| | Outstanding balances payable | 4,230 | - | 539,323,710 | - | 273,690 |
| | Outstanding balances receivable | 118,175,146 | 684 | 1,770,160 | 158,004 | - |

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 Denel Aerostructures SOC Ltd Executive Committee and the Board of Directors, are regarded as Key Management.

Close family members of key management personnel are considered to be those family members who may influence, or be influenced by key management in their dealings with the entity. There are no material transactions other than the directors' emoluments detailed in the directors' report.



| 23 | RELATED PARTIES (CONTINUED) | 2012 | | | 2011 | | |
|----|--|--|-------------------------------|-----------|--|-------------------------------|-----------|
| | | SHORT- TERM EMPLOYEE BENEFITS | POST- EMPLOYEE BENEFITS | TOTAL | SHORT- TERM EMPLOYEE BENEFITS | POST- EMPLOYEE BENEFITS | TOTAL |
| | | R | R | R | R | R | R |
| | COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL | | | | | | |
| | Ismail Dockrat | 2,781,251 | 182,911 | 2,964,161 | 1,883,669 | 172,557 | 2,056,226 |
| | Christine Slabbert | 1,269,376 | 83,525 | 1,352,900 | 350,826 | 32,832 | 383,658 |
| | | 4,050,626 | 266,435 | 4,317,062 | 2,234,495 | 205,389 | 2,439,885 |

24 FINANCIAL RISK MANAGEMENT

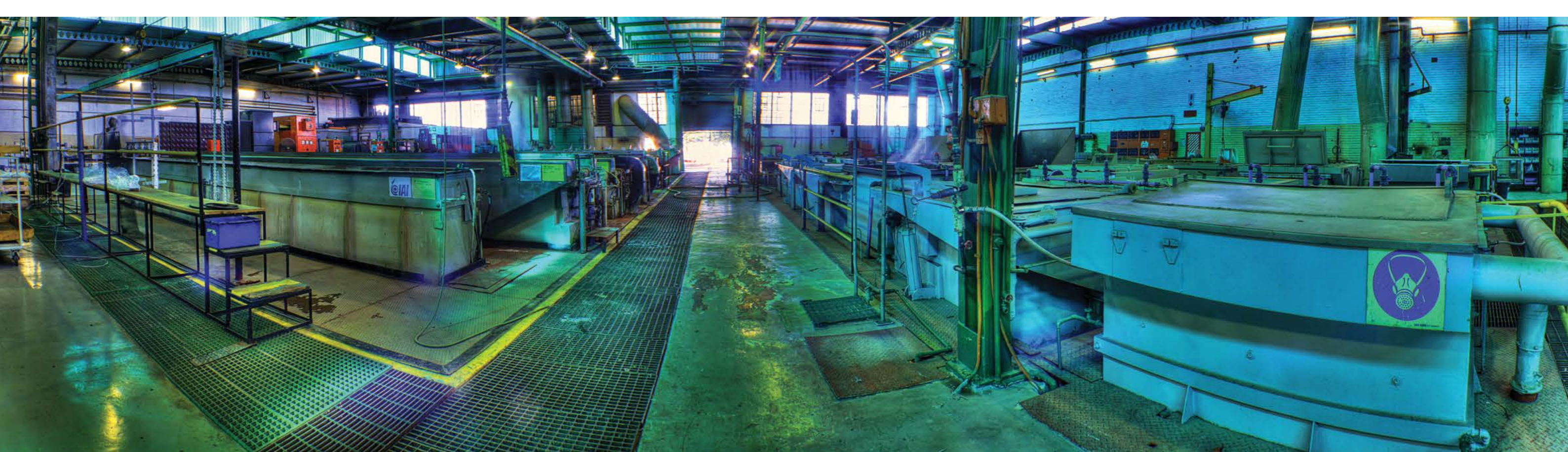
Denel Aerostructures SOC Ltd is exposed to various financial risks due to the nature and diversity of its activities and the use of various financial instruments. These risks include:

- Credit risk
- Liquidity risk
- Market risk

Information about Denel Aerostructures SOC Ltd exposure to each of the above risks, its objectives, policies and processes for measuring and managing these risks are included in this note. Denel Aerostructures SOC Ltd management of capital is also discussed. Further

quantitative disclosures are included throughout Denel Aerostructures SOC Ltd annual financial statements.

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



24.1 CREDIT RISK

Credit risk is the risk of financial loss to Denel Aerostructures SOC Ltd if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from Denel Aerostructures SOC Ltd receivables from customers (loans receivable, trade and sundry receivables)

RECEIVABLES FROM CUSTOMERS

Denel Aerostructures SOC Ltd audit and risk committee of the board has an established policy for the management of credit risk arising on receivables from customers. Under this policy the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Denel Aerostructures SOC Ltd are required to review the following before entering into a contract or submitting a proposal to a potential client:

- The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country;
- The previous business record that the existing client had with business entities within Denel Aerostructures SOC Ltd (includes but is not limited to payment history);
- The most recent credit rating of the country that

the potential customer operates in, from Denel Aerostructures SOC Ltd Treasury Department. Countries are graded by major international banks and these gradings are published on a regular basis. Denel Aerostructures SOC Ltd 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, Denel Aerostructures SOC Ltd 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.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit exposure and concentration of credit risk

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents Denel Aerostructures SOC Ltd concentration of risk for all non-derivative financial assets:

| | 2012 | | | 2011 | | |
|---------------------------------|-----------|------------|------------|----------|------------|------------|
| | DOMESTIC | FOREIGN | TOTAL | DOMESTIC | FOREIGN | TOTAL |
| | R | R | R | R | R | R |
| TRADE RECEIVABLES | 757,675 | 30,501,433 | 31,259,108 | 222,180 | 17,540,287 | 17,762,467 |
| Government and related entities | - | 30,501,433 | 30,501,433 | 158,688 | - | 158,688 |
| Non-government entities | 757,675 | - | 757,675 | 63,492 | 17,540,287 | 17,603,779 |
| SUNDRY RECEIVABLES | 348,661 | - | 348,661 | - | 8,576,053 | 8,576,053 |
| Government and related entities | 348,661 | - | 348,661 | - | - | - |
| Non-government entities | - | - | - | - | 8,576,053 | 8,576,053 |
| | 1,106,336 | 30,501,433 | 31,607,769 | 222,180 | 26,116,340 | 26,338,520 |

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:

| | RECEIVABLES NOT IMPAIRED | RECEIVABLES IMPAIRED | IMPAIRMENT AMOUNT | CARRYING VALUE |
|----------------------------|-----------------------------|-------------------------|----------------------|----------------|
| | R | R | R | R |
| 2012 | | | | |
| TRADE RECEIVABLES | 31,259,108 | - | - | 31,259,108 |
| Not past due | 15,894,712 | - | - | 15,894,712 |
| Past due | | | | |
| • Less than 30 days | 5,624,245 | - | - | 5,624,245 |
| • 30 to 60 days | 1,706,488 | - | - | 1,706,488 |
| • More than 90 days | 8,033,663 | - | - | 8,033,663 |
| OTHER RECEIVABLES | 348,661 | - | - | 348,661 |
| Not past due, not impaired | 348,661 | - | - | 348,661 |
| | | | | |
| | 31,607,769 | - | - | 31,607,769 |
| 2011 | | | | |
| TRADE RECEIVABLES | 17,762,467 | 189,528 | (189,528) | 17,762,467 |
| Not past due | 6,828,796 | - | - | 6,828,796 |
| Past due | | | | |
| • Less than 30 days | 4,246,095 | - | - | 4,246,095 |
| • 30 to 60 days | 6,335,429 | - | - | 6,335,429 |
| • More than 90 days | 352,147 | 189,528 | (189,528) | 352,147 |
| OTHER RECEIVABLES | 8,576,053 | - | - | 8,576,053 |
| Not past due, not impaired | 8,576,053 | - | - | 8,576,053 |
| | | | | |
| | 26,338,520 | 189,528 | (189,528) | 26,338,520 |

24.2 LIQUIDITY RISK

A centralised treasury manages the liquidity of Denel Aerostructures SOC Ltd taking into account assets, liabilities and commitments to ensure there is sufficient cash within Denel Aerostructures SOC Ltd as a whole. Updated cash flow information and projections of future cash flows are sent to treasury on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. The company received subordinated loans from its Shareholders in the prior financial year. These loans are payable when the assets exceed the liabilities of the company.

EXPOSURE TO LIQUIDITY RISK

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

| | CONTRACTUAL UNDISCOUNTED CASH FLOWS | | | | | |
|----------------------------------|-------------------------------------|---------------------|-----------------------|-------------------------------|-----------------------------|----------------------|
| | CARRYING AMOUNT | TOTAL CASH FLOWS | LESS THAN 3 MONTHS | BETWEEN 3 AND 12 MONTHS | BETWEEN 1 AND 5 YEARS | MORE THAN 5 YEARS |
| | R | R | R | R | R | R |
| 2012 | | | | | | |
| Loans and borrowings | 174,600,188 | 73,736,855 | - | 65,513,706 | 162,488,310 | - |
| Trade and other payables | 49,426,430 | 49,426,430 | 27,123,302 | 22,303,130 | - | - |
| Derivative financial liabilities | 167,641 | 167,641 | - | 167,641 | - | - |
| 2011 | | | | | | |
| Interest bearing borrowings | 290,516,910 | 290,778,698 | - | 167,389,349 | 123,389,349 | - |
| Trade and other payables | 31,269,225 | - | - | - | - | - |
| Derivative financial liabilities | - | - | - | - | - | - |

24.3 MARKET RISK

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect Denel Aerostructures SOC Ltd revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of Denel Aerostructures SOC Ltd 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.

INTEREST RATE RISK

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. Denel Aerostructures SOC Ltd 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 Denel Aerostructures SOC Ltd interest bearing financial instruments was as follows:

| | 2012 | 2011 |
|---|-------|-------|
| VARIABLE RATE INSTRUMENTS | | |
| Cash and short-term deposits | 7,000 | 7,000 |
| Bank overdraft | - | - |
| FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS | | |

Denel Aerostructures SOC Ltd 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 Denel Aerostructures SOC Ltd equity is equal to the impact on the profit or loss.

| | | |
|---------------------------|----|----|
| Cash and cash equivalents | 35 | 35 |
|---------------------------|----|----|

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

CURRENCY RISK

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

Treasury is responsible for the hedging of foreign currency exposure in terms of information received. Currency exposures are hedged based on an 18 month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying Foreign Exchange Policy. The hedging instrument is entered into once the exposure is firm and ascertainable, i.e. there is an underlying contract in place.

Denel Aerostructures SOC Ltd exposure to currency risk was as follows based on the notional amounts:

| | 2012 | | | 2011 | | |
|-------------------------------------|------------------|----------------|----------|------------------|------------------|----------|
| | US DOLLAR | EURO | STERLING | US DOLLAR | EURO | STERLING |
| | (USD) | (EUR) | (GBP) | (USD) | (EUR) | (GBP) |
| ASSETS | 3,297,440 | 543,214 | - | 5,076,753 | 34,200 | - |
| Trade receivables | - | 543,214 | - | 538,207 | 34,200 | - |
| Embedded derivatives (export sales) | 3,297,440 | - | - | 4,538,519 | - | - |
| LIABILITIES | (376,133) | (560) | - | - | (188,973) | - |
| Trade payables | (376,133) | (560) | - | - | (188,973) | - |
| Balance sheet exposure | 2,921,307 | 542,654 | - | 5,076,753 | (154,773) | - |
| Forecast transactions: sales | 637,517 | - | - | - | - | - |
| Forecast transactions: purchases | - | - | - | - | - | - |
| Gross exposure | 3,558,824 | 542,654 | - | 5,076,753 | (154,773) | - |
| Forward Exchange Contracts | | | | | | |
| Export sales | (637,517) | - | - | (51,158) | (188,421) | - |
| Import | - | 8,617 | - | 589,366 | 33,647 | - |
| NET EXPOSURE | 2,921,307 | 551,271 | - | 5,614,961 | (309,547) | - |

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:

| | 2012 | | | 2011 | | |
|----------|-----------|---------|----------|-----------|-----------|----------|
| | US DOLLAR | EURO | STERLING | US DOLLAR | EURO | STERLING |
| | (USD) | (EUR) | (GBP) | (USD) | (EUR) | (GBP) |
| Exposure | 1,097,854 | 284,185 | - | 1,957,035 | (150,200) | - |

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 Denel Aerostructures SOC Ltd equity is equal to the impact on the profit or loss.



24 FINANCIAL RISK MANAGEMENT (CONTINUED)

24.3 MARKET RISK (CONTINUED)

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 12.

| | FOREIGN CURRENCY NOTIONAL AMOUNT | | | | | |
|---|----------------------------------|---------|-----------|---------|-----------------------|------------|
| | 1 YEAR | 2 YEARS | 3-5 YEARS | TOTAL | LOCAL CURRENCY AMOUNT | FAIR VALUE |
| | AMOUNT | AMOUNT | AMOUNT | AMOUNT | R | R |
| The following foreign exchange contracts existed at 31 March: | | | | | | |
| 2012 | | | | | | |
| PURCHASE CONTRACTS | | | | | | |
| Euro (EUR) | 8,617 | - | - | 8,617 | 89,958 | 89,398 |
| SALES CONTRACTS | | | | | | |
| US Dollar (USD) | 637,517 | - | - | 637,517 | 5,132,011 | 4,755,878 |
| Euro (EUR) | - | - | - | - | - | 543,214 |
| | | | | | 5,132,011 | 5,299,092 |

| 2011 | | | | | | |
|---------------------------|---------|---|---|---------|-----------|-----------|
| PURCHASE CONTRACTS | | | | | | |
| US Dollar (USD) | 589,366 | - | - | 589,366 | 4,219,859 | 4,809,225 |
| Euro (EUR) | 33,647 | - | - | 33,647 | 329,068 | 362,715 |
| | | | | | 4,548,927 | 5,171,940 |
| SALES CONTRACTS | | | | | | |
| US Dollar (USD) | 51,158 | - | - | 51,158 | 374,480 | 425,638 |
| Euro (EUR) | 188,421 | - | - | 188,421 | 1,842,755 | 2,031,176 |
| | | | | | 2,217,235 | 2,456,814 |

FOREIGN EXCHANGE EMBEDDED DERIVATIVES AND FIRM COMMITMENT

Contracts (sale or purchase) denominated in a foreign currency, which is neither a common currency, the measurement currency of any party to the contract, nor the currency in which the commodity is routinely traded in international commerce, contains a foreign exchange embedded derivative (to sell or buy the equivalent amount of foreign currency), is separated and accounted for at fair value even though the contract is not recognised.

On 1 July 2009, the company voluntarily changed its accounting policy to view the USD, GBP and EURO as common currencies as it will make its results more comparable to other companies in the industry. The changed accounting policy will be applied prospectively from the said date in line with the requirements of IFRIC 9 and IAS 8 and therefore did not affect Denel Aerostructures SOC Ltd financial position, financial performance or cash flows for the current and preceding reporting periods.

| | FOREIGN CURRENCY NOTIONAL AMOUNT | | | | | |
|----------------------|----------------------------------|-----------|-----------|-----------|-----------------------|------------|
| | 1 YEAR | 2 YEARS | 3-5 YEARS | TOTAL | LOCAL CURRENCY AMOUNT | FAIR VALUE |
| | AMOUNT | AMOUNT | AMOUNT | AMOUNT | R | R |
| 2012 | | | | | | |
| Foreign currencies | | | | | | |
| Export transactions | | | | | | |
| Embedded derivatives | | | | | | |
| US Dollar (USD) | 3,297,440 | - | - | 3,297,440 | 24,862,698 | 22,370,509 |
| 2011 | | | | | | |
| Foreign currencies | | | | | | |
| Export transactions | | | | | | |
| Embedded derivatives | | | | | | |
| US Dollar (USD) | 1,856,135 | 1,717,390 | 964,994 | 4,538,519 | 31,633,475 | 23,989,324 |



DETERMINATION OF FAIR VALUES

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest bearing borrowings. Where there is no quoted market price a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using discounted cash flow method at market related interest rate. All other financial assets and liabilities carrying amount approximates fair value.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is determined using accepted valuation techniques and incorporating market quoted prices.



24.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

| | LOANS AND RECEIVABLES | LIABILITIES AT AMORTISED COST | HELD FOR TRADING | TOTAL CARRYING VALUE | FAIR VALUE |
|----------------------------------|-----------------------|-------------------------------|------------------|----------------------|---------------|
| | R | R | R | R | R |
| 2012 | | | | | |
| FINANCIAL ASSETS | | | | | |
| Loans and receivables | - | | | - | - |
| Trade and other receivables | 150,745,660 | | | 150,745,660 | 150,745,660 |
| Derivative financial assets | | | - | - | - |
| Cash and cash equivalents | 7,000 | | | 7,000 | 7,000 |
| | | | | | |
| FINANCIAL LIABILITIES | | | | | |
| Interest bearing borrowings | | (174,600,188) | | (174,600,188) | (174,600,188) |
| Trade and other payables | | (49,426,430) | | (49,426,430) | (49,426,430) |
| Derivative financial liabilities | | | (2,659,830) | (2,659,830) | (2,659,830) |
| | 150,752,660 | (224,026,618) | (2,659,830) | (75,933,788) | (75,933,788) |
| Less: Held for Sale | - | - | - | - | - |
| | 150,752,660 | (224,026,618) | (2,659,830) | (75,933,788) | (75,933,788) |
| 2011 | | | | | |
| FINANCIAL ASSETS | | | | | |
| Loans receivable | - | | | - | - |
| Trade and other receivables | 146,283,826 | | | 146,283,826 | 146,283,826 |
| Derivative financial assets | | | 383,434 | 383,434 | 383,434 |
| Cash and cash equivalents | 7,000 | | | 7,000 | 7,000 |
| | | | | | |
| FINANCIAL LIABILITIES | | | | | |
| Interest bearing borrowings | | (290,516,910) | | (290,516,910) | (290,516,910) |
| Trade and other payables | | (31,269,225) | | (31,269,225) | (31,269,225) |
| Derivative financial liabilities | | | (7,644,152) | (7,644,152) | (7,644,152) |
| | 146,290,826 | (321,786,135) | (7,260,718) | (182,756,027) | (182,756,027) |

6. INFORMATION & SERVICES

CONTACT INFORMATION

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

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1620

TELEPHONE NUMBERS:

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011 927 4432
011 927 3263

FRAUD HOTLINE:

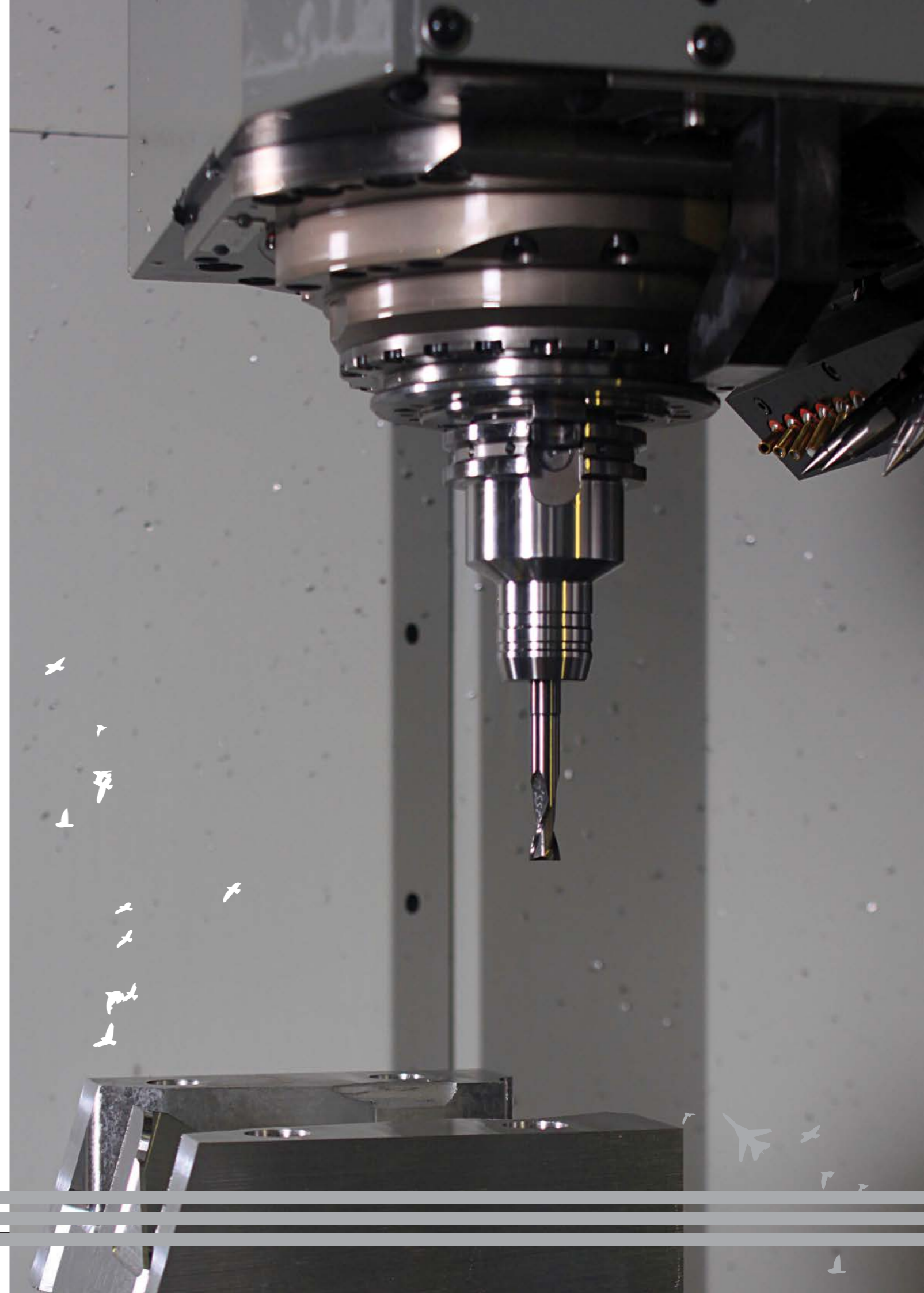
0800 204 880

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The following people can be contacted for contribution and feedback on the sustainability report on 011 927 3319:

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Ms L Viviers
Mr K McPhail



GLOSSARY

| A | |
|----------|--|
| 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 |
| B | |
| 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 | Chartered Accountant |
| CAF | Chief of Air Force (South Africa) |
| CEO | Chief Executive Officer |
| CFC | Controlled Foreign Currency |
| CFO | Chief Financial Officer |
| CIPS | Chartered Institute of Purchasing and Supply |
| CSIR | Council for Scientific and Industrial Research |
| CV | Curriculum Vitae |
| D | |
| DA | Denel Aviation |
| DAe | Denel Aerostructures |
| DCO | Denel Corporate Office |
| DOD | Department of Defence |
| 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 |
| E | |
| EASA | European Airworthiness Authorities |
| EBIT | Earnings before Interest and taxation |
| EMT | Executive Management Team |
| EUR | Euro (Currency unit) |
| EXCO | Executive Committee |
| Excl | Excluding |
| F | |
| FIFO | First in First Out |
| G | |
| GBP | British sterling pound |
| GDP | Gross domestic product |
| GRI | Global Reporting Initiative |
| H | |
| HR | Human Resources |
| I | |
| IAS | International Accounting Standards |
| IASB | The International Accounting Standards Board |
| ICAS | Independent Counseling 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 |

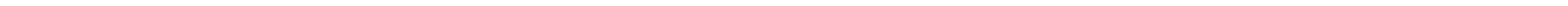
| K | |
|----------|---|
| KPI | Key performance Indicator |
| L | |
| LUH | Light Utility Helicopter |
| Ltd | Limited |
| LTIFR | Lost Time Injury Frequency Rates |
| M | |
| M | Million |
| MLGU | Main Landing Gear Unit |
| MOI | Memorandum of Incorporation |
| MW | Mega Watt |
| N | |
| NEMA | National Environmental Management Act |
| NGO | Non Governmental Organisation |
| NGP | National Growth Path |
| NIPF | National Industrial Policy Framework |
| NT | National Treasury |
| NUMSA | National Union of Metal Workers of South Africa |
| O | |
| OEMs | Original Equipment Manufacturers |
| OMT | Operational Management Team |
| OSHA | Occupational Safety and Health Administration |
| P | |
| PA | Personal Assistant |
| PAA | Professional Advisors Association |
| PDP | Personal Development Plan |
| PFMA | Public Finance Management Act, no.1 of 1999 |
| PSA | Product Supply Agreement |
| PPPFA | Preferential Procurement Policy Framework Act |

| R | |
|----------|--|
| Rand | South African Rand |
| R & D | Research and Development |
| Rm | Rand Million |
| RF | Rear Fuselage |
| RSS | Ribs, Spars and Sword |
| S | |
| SA | South Africa |
| SAA | South African Airways |
| SAM | Social Accounting Matrix |
| SANDEF | South African National Defence Force |
| SBL | School of Business Leadership |
| SDP | Sector Development Plan |
| SHE | Safety, Health and Environment |
| SMME | Small, Medium and Micro Enterprises |
| SOC | State Owned Company |
| T | |
| TETA | Transport Education Training Authority |
| TKB | Trisano Ka Bato Training Consultants |
| TS | Top Shells |
| TMA | Turbomeca Africa (Pty)Ltd |
| U | |
| UASA | United Association of South Africa |
| UAV | Unmanned Air Vehicle |
| UNISA | University of South Africa |
| USD | United States Dollar (Currency unit) |
| V | |
| VAT | Value added tax |
| W | |
| WFF | Wing to fuselage fairing |
| WITS | University of the Witwatersrand |
| Y | |
| YTD | Year to Date |



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