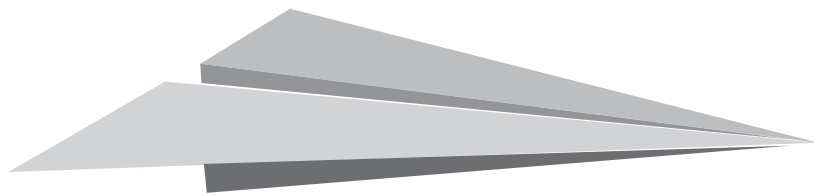




DENEL AEROSTRUCTURES

ANNUAL REPORT 2015



“ A CATALYST
FOR ADVANCED
MANUFACTURING
IN AFRICA”



DENEL AEROSTRUCTURES





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*YESTERDAY IS NOT OURS TO RECOVER, BUT TOMORROW IS OURS TO WIN OR LOSE.
- LYNDON B. JOHNSON*



**SOCIAL
RESPONSIBILITY**

**ANNUAL FINANCIAL
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DENEL
AEROSTRUCTURES

DENEL
AEROSTRUCTURES

GROUP OVERVIEW

01

ABOUT THE REPORT

This annual report presents a transparent, comprehensive and comparable view of the financial, operating, social and sustainability performance of Denel Aerostructures SOC Ltd (DAe) for the year ended 31 March 2015 to a broad range of stakeholders. DAe Ltd is committed to sustainable development, and responds to economic, social and natural environmental imperatives.

The report demonstrates how governance, human resources, supply chain management, innovation and environmental issues, and citizenship activities help to boost performance, reduce risks and maximise value creation. This report acknowledges the increasing demands of shareholders, policymakers and employees for 'integrated performance' reporting, which combines financial and non-financial performance metrics. The board of directors oversees and reports on the key strategies, risks and sustainability matters of the company. The company's most significant and material issues are discussed throughout the annual report.

DENEL OVERVIEW

Denel is a significant global provider of defense, aerospace, security solutions and technologies, with more than 50% of its revenue earned from exports. The product offering continues to evolve taking into account the strategy and client requirements. Denel has a presence in SA, Africa, the Middle East, Southeast Asia, South America and Europe.

Products and services include combat turrets, artillery and vehicle systems, missiles, command and control, MRO of aircraft, avionics upgrades, testing of airborne systems, munitions, design and manufacturing of aerostructure components, satellite development, as well as humanitarian services including demining.

Solutions are designed to meet unique user requirements and Denel provides full lifecycle support. Research, design, development, integration, qualification, certification and industrialisation of products are carried out primarily in-house, with significant elements of production outsourced to the broader SA manufacturing and defense industries. It is a fact that many innovative applications have been leveraged from the defense technology base, amongst others to improve rail safety, crime prevention, and surveillance, protection of assets, mining drill bits and commercial brass strip.



ORGANISATIONAL STRUCTURE



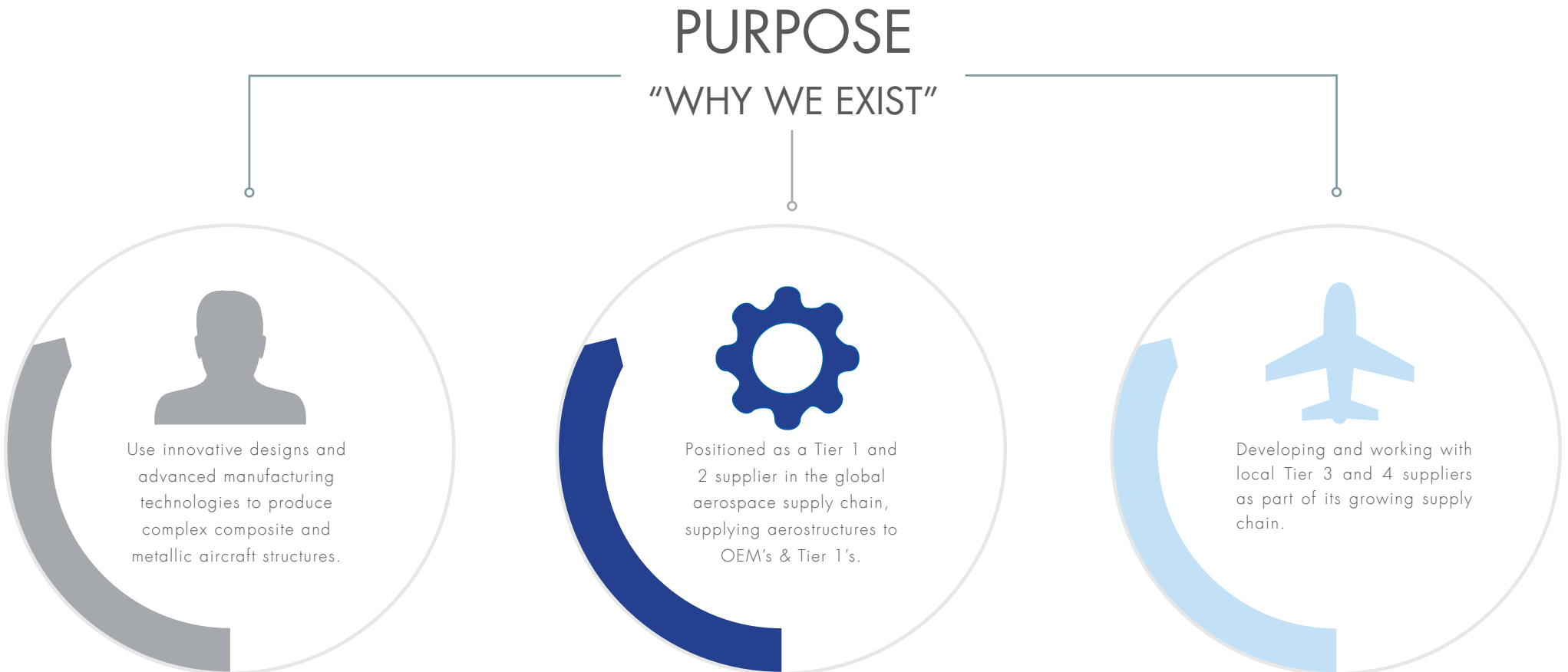
BUSINESS UNITS

DENEL DYNAMICS	DENEL AVIATION	DENEL LAND SYSTEMS	DENEL AERO STRUCTURES SOC LTD	DENEL ISM	DENEL PMP	DENEL VEHICLE SYSTEMS	LMT HOLDINGS SOC LTD	DENEL OVERBERG TEST RANGE	SUPPORTING BUSINESSES	ASSOCIATED COMPANIES	DENEL STRATEGIC EQUITY PARTNERS
Missiles	Aviation	Land Systems							Denel Industrial Properties	Turbomeca Africa (Pty) Ltd 49 %	
UAVS	Technical Academy	Mechem							Densecure SOC Ltd	Airbus DS Optronics (Pty) Ltd 30 %	
Spaceteq										Rheinmetall Denel Munition (Pty) Ltd 49 %	
										Tawazun Dynamics LLC 49 %	

DENEL AEROSTRUCTURES OVERVIEW

Denel Aerostructures SOC Ltd (DAe) is a wholly owned subsidiary of Denel SOC Ltd. DAe is the leading aerostructures company in Africa – a powerhouse in aerospace design and manufacturing for the military and commercial aviation sectors. As a strategic partner in global programmes the company continues to build on its long-standing reputation for innovation, quality and specialised solutions in aerospace design and manufacturing. With over 50 years of experience in the industry, DAe uses innovative designs and advanced manufacturing technologies to produce complex composite and metallic aircraft structures which it supplies to original equipment manufacturers and other aerostructure suppliers.

OUR VISION, MISSION AND STRATEGY



VISION

Denel Aerostructures in the preferred and reliable African link in the global aerostructures supply chain :

- Providing on time quality, service and value for our customers.
- Building a prosperous company for our employees and our shareholder.

STRATEGIC DRIVERS

- Grow revenue and improve customer relationships

- Increase productivity, efficiency and profitability

- Enhance capabilities and foster innovation

- Create a dynamic and vibrant organisation

KEY OBJECTIVES

- Focus on short term order intake to grow revenue: R550m (2016)
- Airbus MOU and other OEM's strategic initiative
- Secure NIP/DIP from Government aircraft fleet procurement

- Optimised cost structure
- Strong balance sheet
- Break-even 2015/16
- Operational excellence
- Develop local supplier base

- National flagship programme: SARA
- Rooivalk roadmap
- New manufacturing technologies
- Focus on commercial aircraft programmes

- B-BBEE level 2 rating
- Skills development
- Succession planning
- Transformed organisation

TO BE STATE

A dynamic, vibrant, financially sustainable, transformed and profitable organisation



OUR VALUES



PERFORMANCE

We embrace operational excellence.



INTEGRITY

We are honest, truthful and ethical.



INNOVATION

We create sustainable innovative solutions.



ACCOUNTABILITY

We take responsibility for our actions.



CARING

We care for our people, customers, communities, nation and the environment.

KEY HIGHLIGHTS AND ACHIEVEMENTS

REVENUE
INCREASED BY 7%

PROFITABILITY
IMPROVED BY 61%

EBITDA
IMPROVED BY 57%

Local revenue
R49m
(10%)

Export revenue
R419m
(90%)

Significant R&D spend
R7.9m (2013/14:
R2m)

Skills development
spend R9.6m

KEY ACCREDITATIONS

Nadcap, Non-destructive testing,
composites (merit), chemical
processing and heat treatment
(merit). AS9100 rev C

100%

on-time and on-quality deliveries on
all serialised production programmes.

434 EMPLOYEES

&

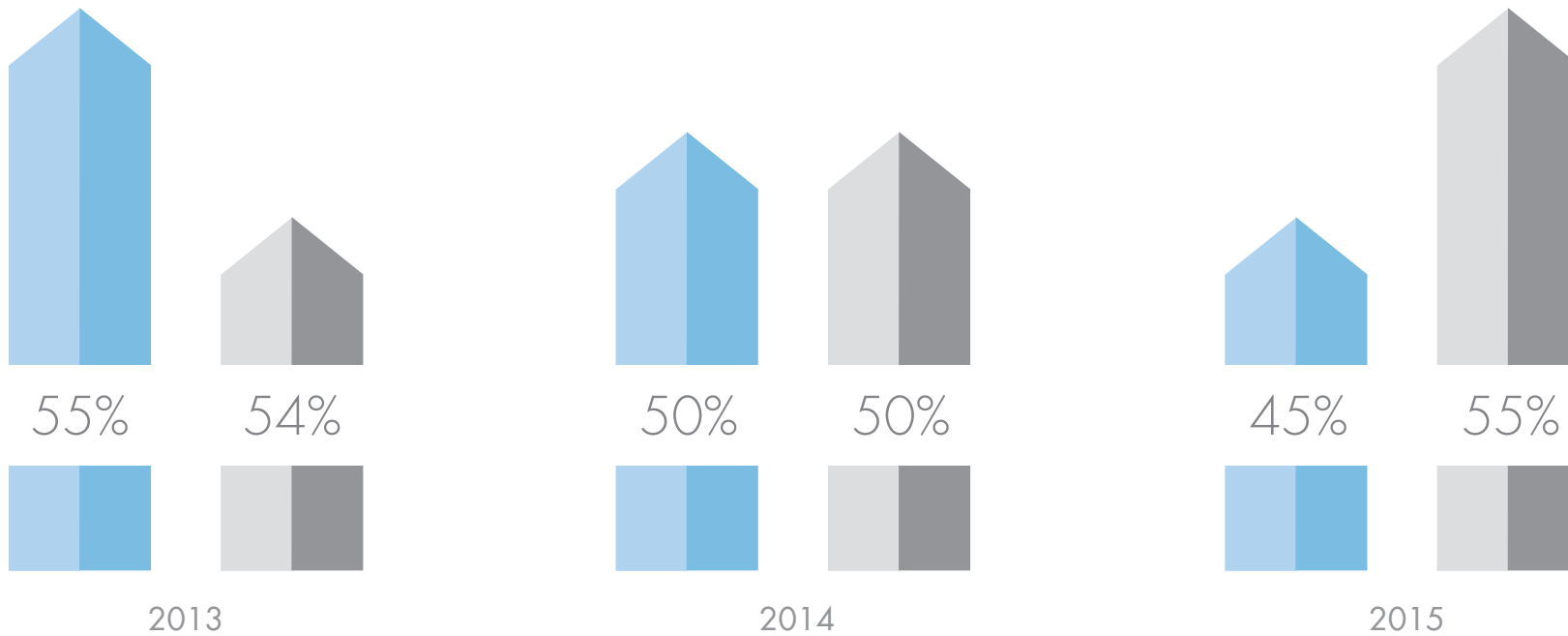
B-BBEE LEVEL 2

OUR ATTRACTION STRATEGIES ARE WORKING:

- 26 jobs created
- 100% were ACI
- 30% were female
- 24 Apprentices on the job training

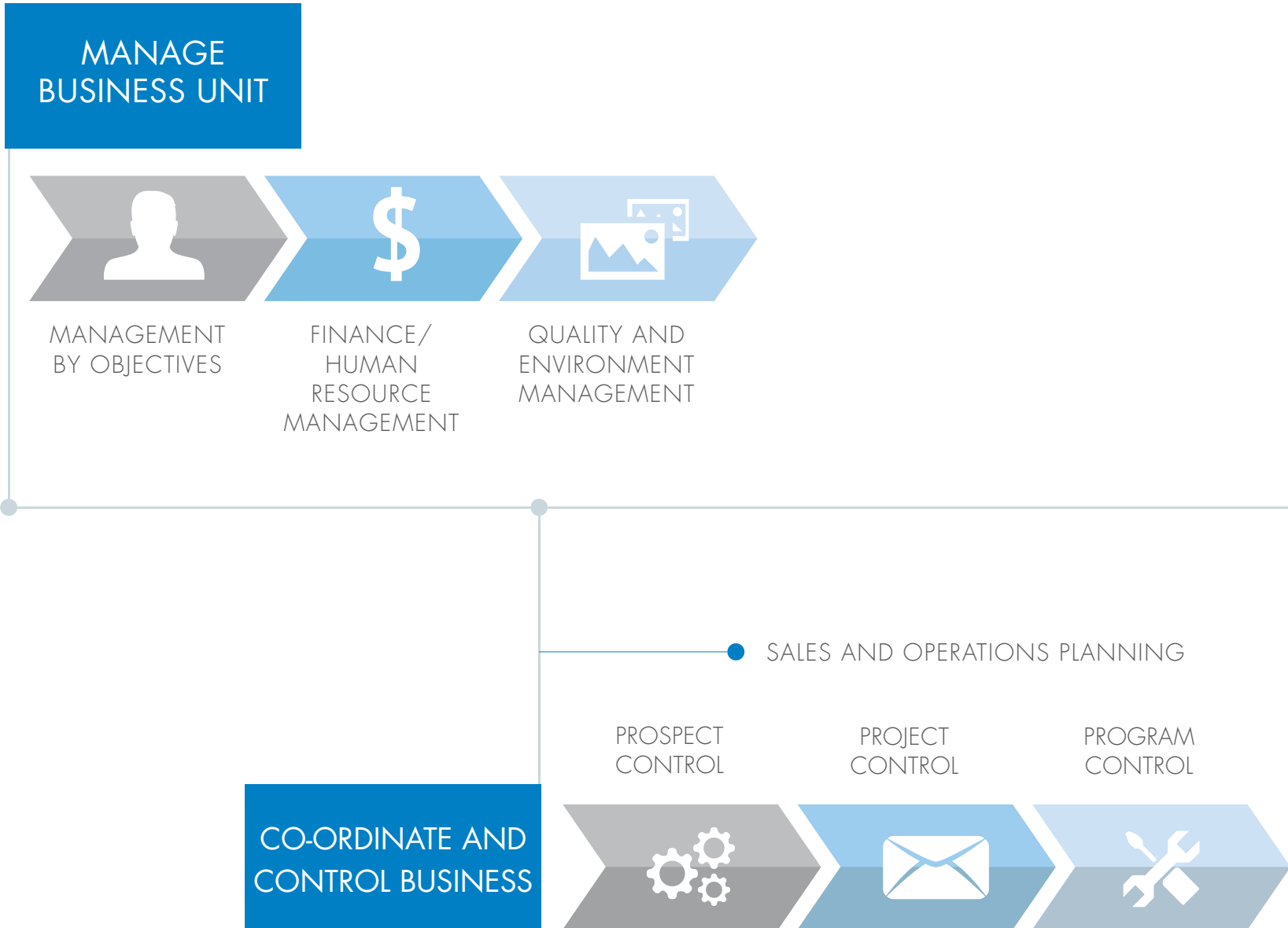
ENERGY SAVING

R4m



white 
ACI 

OUR BUSINESS MODEL



REFINE AND DELIVER

ESTABLISH BUSINESS



ESTABLISH BUSINESS WITH CUSTOMER

DEVELOP AND MANUFACTURE FIRST ARTICLE



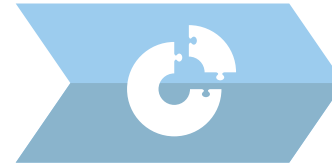
HANDLE REQUIREMENT DOC. FROM CUSTOMER

PRELIMINARY DESIGN
DETAIL DESIGN
MANUFACTURE FIRST ARTICLE

MANUFACTURE TOOLS

CHANGES

SERIAL PRODUCTION



MANUFACTURE SHIPPING

STORE

INTERNAL TRANSPORTATION

PROVIDE PRODUCT SUPPORT



SPARES SUPPORT
ISSUE RESTORE STATEMENT
RESTORATION OF PARTS
DELIVERED TO CUSTOMER

SUPPORT BUSINESS UNIT

PROCUREMENT & CONTROL OF SUPPLIERS



SUPPORT DEVELOP AND MANUFACTURE FIRST ARTICLE



SUPPORT SERIAL PRODUCTION



EXTERNAL SERVICES



PERFORMANCE AGAINST THE CORPORATE PLAN

DAe commits to key performance areas with its shareholder on an annual basis which is documented in the table below. Performance against the contracted targets is continuously monitored by the board. DAe has outperformed the contracted targets in areas all key areas. The performance achieved by the company for the year under review, compared to the contracted targets, is provided in the table below:

STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	2014/15 TARGET	2014/15 ACTUAL
STRATEGIC ROLE IN THE PROVISION OF DEFENCE CAPABILITIES	Security of supply and retention of capabilities in areas requireby DoD &MV	Retained strategic capabilities in support of the DoD & MV's requirement as per register	100%	100%
	Programme delivery	Milestone achieved as per contracted deliverables	85%	96%
STRATEGIC ECONOMIC ROLE	Investment in R&D	Self-funded R&D as a % of turnover	3%	2%
BUSINESS SUSTAINABILITY	Sales	Increase in revenue year-on-year	10%	7%
	Profitability management	EBIT Margin	(12%)	(4%)
	Cash from operating activities	Positive cash position	R90m	R229m
	Order cover	Orders concluded in respect of the coming year as % of sales budget for that year	76%	91%
	Operating expenditure	Operating costs as a % of revenue	21%	11%

STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	2014/15 TARGET	2014/15 ACTUAL
SOCIO -ECONOMIC OBJECTIVES	Maximise the appointments from designated groups to address employment equity requirements	ACI as % of total appointments	75%	100%
	Maximise the appointments from designated groups to address employment equity requirements	Women as % of total appointments	30%	30%
	Preferential procurement and enterprise development	Procurement from black owned suppliers as % of local spend	20%	44%
		B-BBEE(% of recognised spend)	80%	110%
		Black youth-owned as a % of total local spend	5%	2%
		Black woman-owned as a % of total local spend	3%	8%
		Small and emerging enterprises suppliers developed	15	5
	B-BBEE level	B-BBEE contributor level	Level 3	Level 2
	Training spend	% of employee cost	3%	5%
	Skills development in scarce and critical skills	Total number of engineering trainees	3	0
		Total number of technician and artisan trainees	18	18
		Total number of DTA artisan and technical skills trainees	32	32
	Employment jobs created	Increase in number of jobs	26	25



REPORTS AND REVIEWS

02



SHAREHOLDERS FOREWORD

The South African infrastructure development drive, through policy driven initiatives such as NDP and IPAP are aimed directing the transition from a resource-based to an industrialised economy. The Cabinet approval of the Defense Review of 2014 and the subsequent adoption by the Joint Standing Committee on Defense will further ensure that the South Africa's defense and aerospace industries continue to support the new wave of industrialisation in the country.

As a state-owned company, Denel Aerostructures (DAe), strongly supports Government's intention to ramp up the scale of industrialisation as a critical step to diversify the economy, create employment and grow the country's skills base. In each of these areas DAe has the capacity to play a pivotal role providing employment for highly-skilled engineers, technicians and artisans. For more than 50 years the company has built an enviable reputation for innovation in the design, industrialisation and advanced manufacturing of aerospace products. Iconic products such as the Oryx and Rooivalk helicopters serve as DAe's credentials in the field.

Over the years, DAe has positioned itself as a value-adding supplier within the global aerospace supply chain with recognition for their capabilities for engineering design, advanced manufacturing, project management and on-time delivery. These capabilities continue to advance DAe's market growth and development of sustainable relationships. The relationship with Airbus is of significant importance for DAe.

This relationship serves as leverage for market access into the commercial aerospace environment. The signing of a collaborative agreement between Denel, Airbus and Aerosud Aviation to explore future opportunities served as a significant milestone in the strengthening of this relationship. This has the potential to advance the entire South African aviation sector and have a cascading impact on the growth of new enterprises, especially black-owned and women-owned, that can be integrated within the Denel supply chain network.



One of the NDP's objectives is to stimulate the manufacturing sector ensuring a growing share of products that are dynamic and of high value and by intensifying research and development support for innovation and commercialisation.

Denel's role as a catalyst for growth within the wider research and development arenas are also evident through DAe's role in the design and development of a Small African Regional Aircraft (SARA), a potential Joint Aerospace Steering Committee national flagship programme, and the on-going support for upgrades on the Rooivalk combat support helicopter which is providing a winning edge for South African troops involved in peace-keeping operations on the continent.

As the shareholder we are delighted with the improved financial performance of DAe and share the confidence that the company will return to profitability ahead of projections. The future of DAe looks promising and I am confident that the company can continue on the upward trajectory it enjoyed in recent years.

I want to express my sincere appreciation towards the outgoing members of the board and the executive for their guidance and leadership during DAe's turnaround phase and add my congratulations to the new team who will lead the company in future. It is a source of pride for the shareholder that we have been able to fill all these senior appointments from within the ranks of the Denel Group, bringing a combination of continuity and new energy to the next phase of the company's growth.

A handwritten signature in black ink, appearing to read 'R Saloojee', with a horizontal line underneath it.

Riaz Saloojee
Group Chief Executive
Denel SOC Ltd



CHAIRMAN'S REVIEW

DAe' strategy is focused on growing revenue and ensuring that the business is managed optimally in terms of productivity and efficiency. We have overseen the strategy implementation over the years and are excited that it is resulting in DAe becoming a sustainable business.

The success of the strategy is evidenced by the improved financial performance for the 2014/2015 financial year. I am delighted that the Company once again can report on an improved financial performance during the year under review. Revenue increased by 7% and the company's net loss position has improved by 61%. Almost 90% of the company's revenue is earned from exports, making it a valuable earner of foreign exchange for the Group and the South African economy.

The implementation of the corporate turnaround strategy is yielding positive results and we are quite confident that the company will be able to report sustainable profits ahead of the intended target. This can be attributed to strong financial controls and tighter operating efficiencies across the business.

The board and our various committees met regularly during the year and both the attendance and contribution of the directors were excellent. During the year the board and management of DAe underwent significant changes. I want to pay tribute to the outgoing chairman, Dr Gert Cruywagen who retired after four years at the helm, Ms B Paledi who also resigned during this financial year. The CEO, Mr Ismail Dockrat, who successfully steered the business since March 2010 was appointed to lead the newly established Denel Integrated Systems and Maritime division. The CFO Ms Christine Slabbert, has also been re-deployed to Denel Dynamics.

I welcome the appointment of the non-executive board members, Mr Phaladi Petje and Mr Themba Zwelibanzi. I wish to extend a similar welcome to Mr Theo Kleynhans, who has served with distinction as Deputy CEO and Chief Operations Officer in the past Mr Victor Xaba as the new Deputy CEO, and Ms Honey Shangase as new CFO. We are delighted that we could make the majority of these senior appointments from within the ranks of the company, in line with Denel's philosophy to 'grow its own timber.'

The coming year will be a period of focusing on growth as we strengthen our position on existing contracts and extend our capabilities in the commercial aerospace sector and other advanced manufacturing opportunities. I am confident that with the support of the new board, new management and the contribution made by each and every employee we will be able to achieve our goals.

I wish to acknowledge the commitment and support of our shareholder and the South African government demonstrated their interest in our activities and the future of our business. I appreciate my fellow board members for their contribution and valuable guidance throughout this period. I commend the executive management team for their sterling leadership and resourcefulness during the year and extend my appreciation to all the employees of DAe for their contribution to the excellent performance against the corporate plan.



Fikile Mhlontlo
Acting Chairman of the Board
Denel Aerostructures SOC Ltd





CHIEF EXECUTIVE OFFICER'S REVIEW

Denel Aerostructures (DAe) is realising its vision of being “the African link in the global aerostructures supply chain”. DAe not only plays a pivotal role in the national efforts to deepen South Africa’s industrial and knowledge base through advanced manufacturing and technology leadership in the aerospace sector, it has grown its exports to around 90% of its revenue making the company an important earner of foreign exchange.

With more than 50 years of experience in the design, industrialisation and manufacturing of complex aerostructures and its enviable track record of partnering with some of the world’s leading original equipment manufacturers, DAe has truly transitioned from being a local defense-related prototype production company to becoming a high-technology supplier in the global aerospace advanced manufacturing sector. The 2014/15 financial year was a period in which the company was able to sustain its momentum on revenue growth while strengthening its reputation as an innovative and trusted partner.

DEEPENED RELATIONSHIP WITH KEY CUSTOMERS

Deepening our relationships with key customers remains an important part of the company’s business strategy. DAe’s relationship with Airbus has deepened in the past year and providing opportunities for the development of new sustainable relationships with other aerospace industry players. We are immensely proud of our role as a top tier supplier on the A400M programme and contribution to the manufacturing of the world’s leading military airlifter.

Our partnership with Airbus has enabled DAe to raise its international profile, gain valuable experience on a global manufacturing programme and establish an enviable track record for quality and innovation which will stand the company in good stead for years to come.

In the past year DAe signed an important collaborative agreement with Airbus and Aerosud Aviation to strengthen and sharpen the global competitiveness of the South African aerospace manufacturing industry and its research and development capabilities. This new alliance builds on a successful relationship of more than seven years where DAe participated as a full industrial partner of Airbus and key supplier to the Airbus A400M military transport aircraft. Under the strengthened relationship, DAe, Aerosud Aviation and Airbus will jointly develop industrial projects which will enhance South Africa’s global competitiveness in the sector, while at the same time providing more long-term, sustainable and profitable business for the South Africa’s aviation industry, including the support and development of SMME suppliers.



IMPACT ON MANUFACTURING AND AEROSPACE INDUSTRIES

Within the South African manufacturing industry DAe plays an important role in the exporting of advanced manufactured products. Through our supply chain processes and commitment to the growth of small and emerging enterprises, DAe continues to contribute to the development of new participants in the manufacturing sector. Our objective is to establish long-term relationships with suppliers and to act as a catalyst for the growth of the entire sector. Through our training and support programmes we are enabling local suppliers to meet international standards in an economically sustainable manner.

In this context DAe intends to continue to play a critical role in the growth of the aerospace sector that has the potential to be a driver for new technologies and technical skills and support the country's growth towards a knowledge economy.

LEADERSHIP IN INNOVATION

The 'can-do' attitude of the company is reflected in our achievements on the A400M programme. Our commitment to a high-performance culture is also reflected in our leadership role along with Denel Aviation on the SARA (Small African Regional Aircraft) programme.

The rapid growth in air travel on the African continent has created a demand for a new generation aircraft that can fly point-to-point and link regional centres that are not currently accessible for passenger flights. There is proven capacity within the local aerospace industry to deliver on an indigenous South African aircraft, as demonstrated with the success we have achieved in the development of the Rooivalk helicopter.

DAe announced at the AAD2014 exhibition in Tshwane that we are collaborating with other divisions in Denel, universities and research institutions to develop a technology demonstrator of the SARA. We have received high-level support for the concept from various stakeholders within the South African Aerospace community, including government departments, industry, industry associations and academia.



SARA, which has the potential to become a new flagship programme for Denel, is also indicative of DAe's determination to grow a more balanced business portfolio and to expand our presence in the commercial and civil aviation markets.

We remain confident that the procurement processes for the acquisition of new fleet for the national carriers and SAAF will continue in the near future. This will contain important elements of National and Defense Industrial Participation Programmes (NIP & DIP). Such programmes will, inevitably, lead to strong opportunities for revenue growth and enable DAe to become further integrated into the global commercial aircraft supply chain.

Denel Aerostructures diversified into rail and other commercial industries on the basis of the experience it has gained in the manufacturing of high-technology aerospace projects.

OPERATIONAL EXCELLENCE

During 2014/15, we successfully delivered against all our programmes as evidenced by the substantial growth in revenue and profitability. A number of operational successes contributed to achieving the strategic objective of operational efficiency.

Our turnaround plan has achieved the expected results across the entire spectrum of the company's activities and we have built up sufficient momentum to sustain the long-term financial future of the company. We value the confidence in our long-term future demonstrated by our shareholder and the Denel Group and are pleased to report that we are meeting the expectations.

We can report a 7% increase in revenue over the past financial year and our net loss position has improved to R13 million from the previous financial year figure of R33 million. We are driving our capacity and capability growth initiatives in line with our corporate plan.

With the successful completion of the ramp-up on the A400M programmes and our proven track record of consecutive, on-time delivery, our objective is to continue on this trajectory.



We have succeeded in our objective to deepen the industrial and knowledge base of the company through our achievements in the field of advanced manufacturing. This provides the platform for the company to consolidate its position even further and to prepare for a period of growth and expansion in the years to come.

TRANSFORMATION

DAe will continue with the implementation of our very successful transformation programme to ensure the company reflects the values of our democratic society and contribute towards national developmental imperatives, especially in the fields of skills development, training and enterprise development. As an advanced manufacturing company, DAe will play a more prominent role in growing the country's strategic technology base and creating skilled jobs that will be a catalyst for growth in the broader society.

In the past year more than 100% of new appointments were filled from employment equity candidates and more than 52% of procurement spent including foreign (111% local excluding foreign) was directed towards B-BBEE compliant suppliers.

On a wider scale we have taken decisive measures to reduce energy consumption at our facilities during a time when the country's power grid is under strain. We enjoy a very cordial relationship with the Ekurhuleni Metropolitan Council and contribute to the development of the Gauteng province's plans to create an Aerotropolis within the region.

OUR FUTURE

In the past year we have seen a much tighter integration of DAe within the Denel Group and higher levels of horizontal cooperation with other divisions. We exchange engineering support and services across the Group, collaborate with Denel Dynamics on airframe design and work closely with Denel Aviation on the upgrade programme for the Rooivalk combat support helicopter and SARA. DAe will continue to build on this relationship in the coming years.

In the year to come DAe's priority will be to broaden its product range and grow its customer portfolio especially in non-defense business and in the commercial aerospace environment. This will contribute to revenue growth and a return to profitability earlier than anticipated.



APPRECIATION

I want to express my sincere appreciation to the Board, our shareholder, and senior executives. A special word of thanks is extended to our loyal employees whose dedication, innovation and commitment have helped to steer DAe through its lean period. This is testament of their commitments towards the company values of Performance, Integrity, Innovation, Caring and Accountability in support the company's growth to 'move from good to great'.

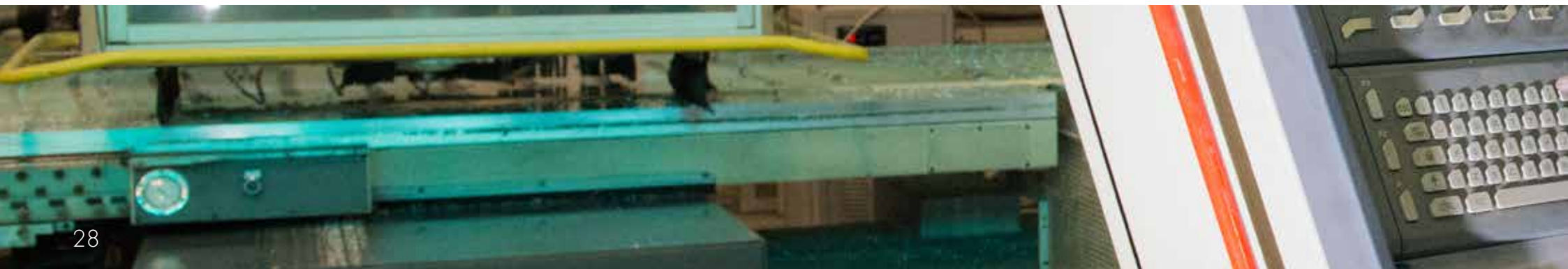
Theo Kleynhans
Chief Executive Officer

*DESTINY IS NO MATTER OF CHANCE. IT IS
A MATTER OF CHOICE. IT IS NOT A THING
TO BE WAITED FOR, IT IS A THING TO BE
ACHIEVED*

- WILLIAM JENNINGS BRYAN



CHIEF FINANCIAL OFFICER'S REVIEW



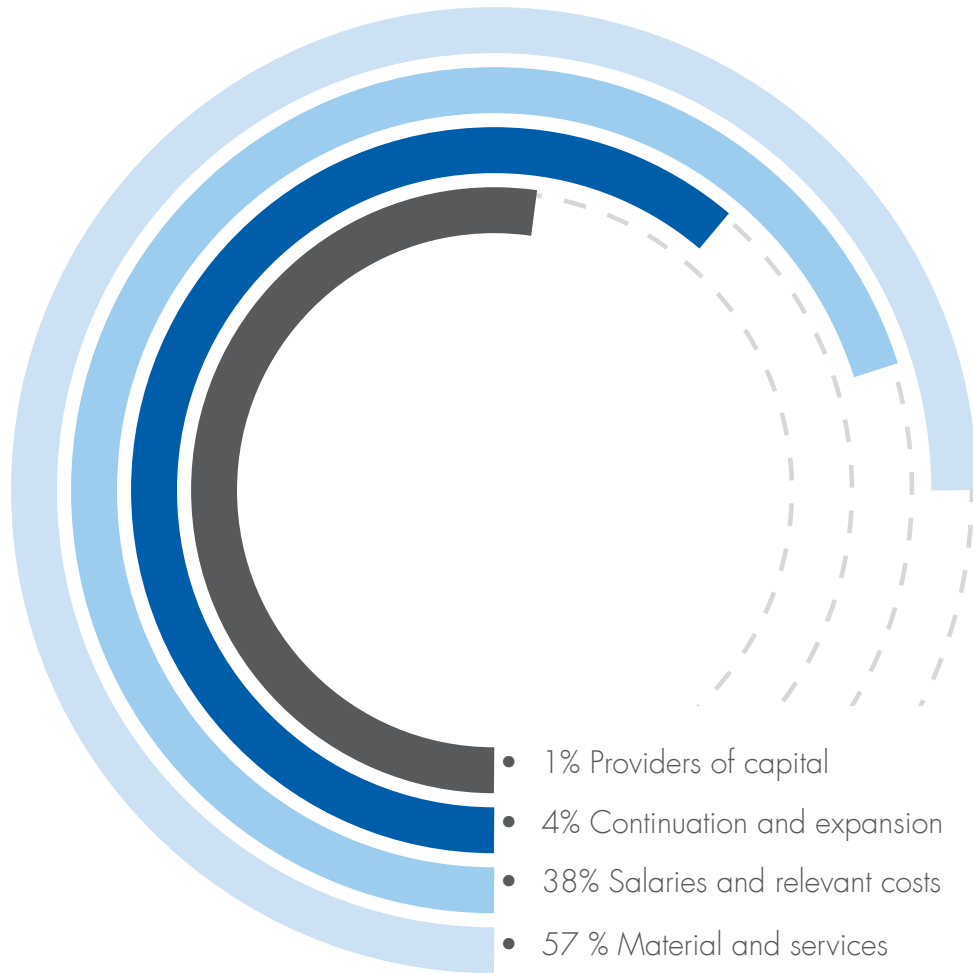
EXTRACTS FROM THE ANNUAL FINANCIAL STATEMENT ¹	2015 Rm	2014 Rm	2013 Rm
Statement of comprehensive income			
Revenue	468	438	262
Gross profit	32	(30)	(47)
Other income	3	23	84
Other operating expenses	(54)	(37)	(82)
Earnings before interest and tax (EBIT)	(19)	(44)	(45)
Net finance income/(costs)	6	11	(5)
Net Loss for the year	(13)	(33)	(51)
Statement of financial position			
Cash and cash equivalents	229	323	452
Total assets	773	780	798
Equity	316	329	362
Borrowings	336	336	336
Ratios			
Debt/equity ratio	1:1	1:1	1:1
Current asset ratio	5:1	5:1	7:1

¹ Refer to the full set of annual financial statements on pages 98 to 157.

2014/15 was a successful, albeit challenging year for DAe. Improved operational performance drove revenues and profitability higher. The company achieved a series of key milestones in major programmes. Strong financial control and tighter operating efficiency across the business has been key to our improvement in trading profit.



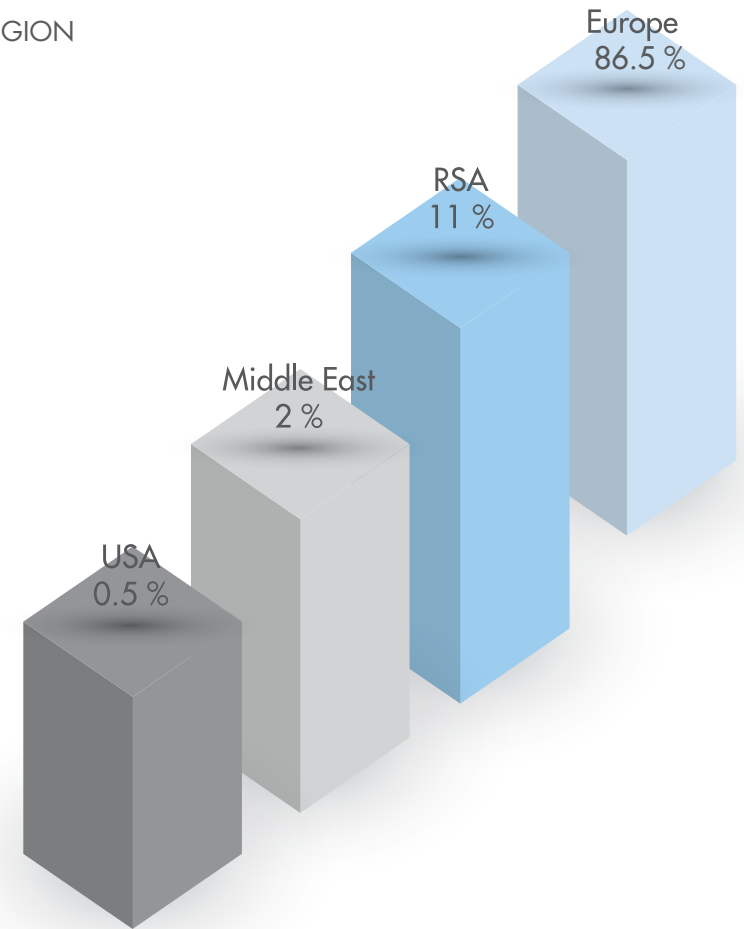
VALUE DISTRIBUTION



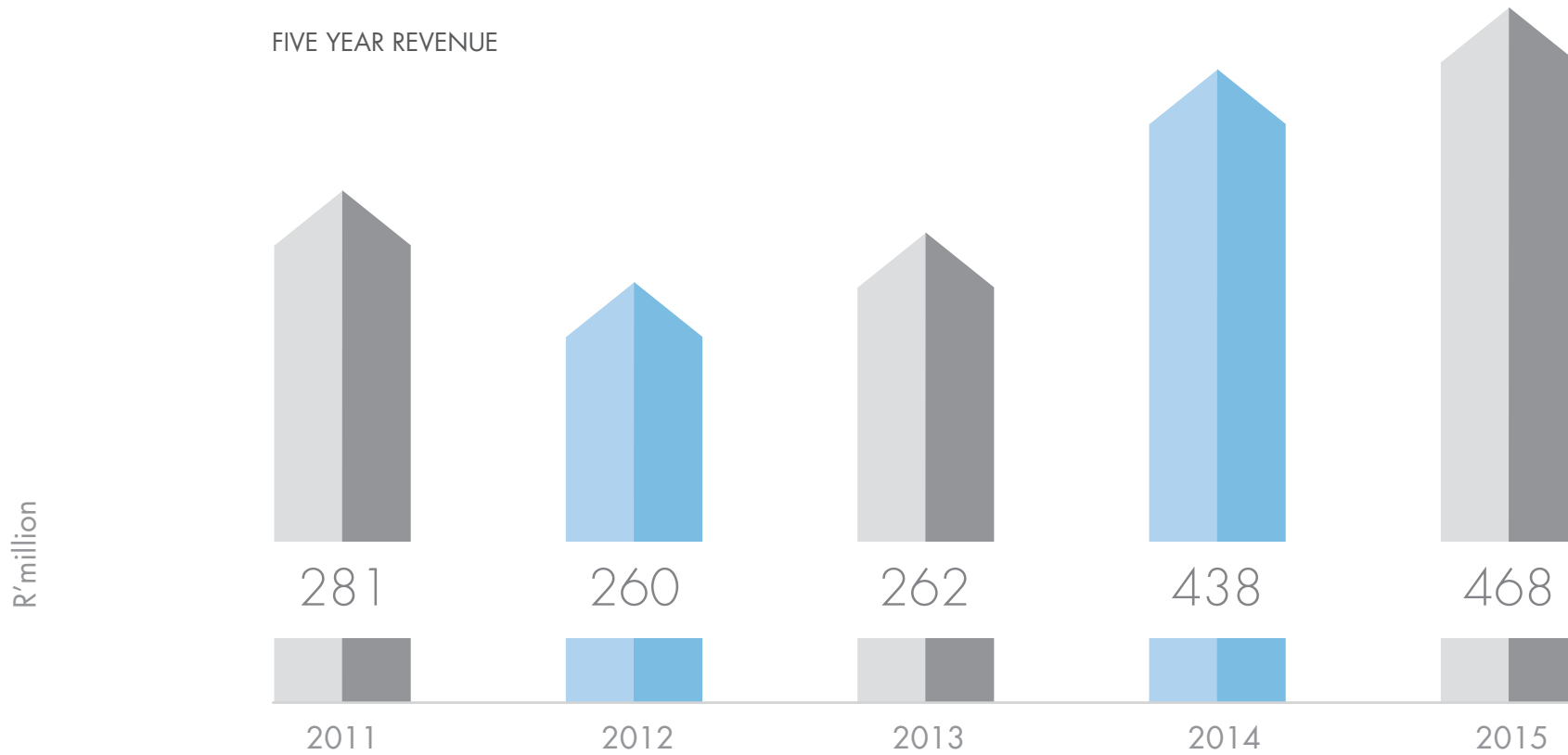
REVENUE

Revenue growth remains the key focus in the DAe strategy. In the last five years, revenue has increased by 66%, 7% (R30m) year on year. Export revenue increased significantly and now comprises 89% of total revenue.

REVENUE BY REGION



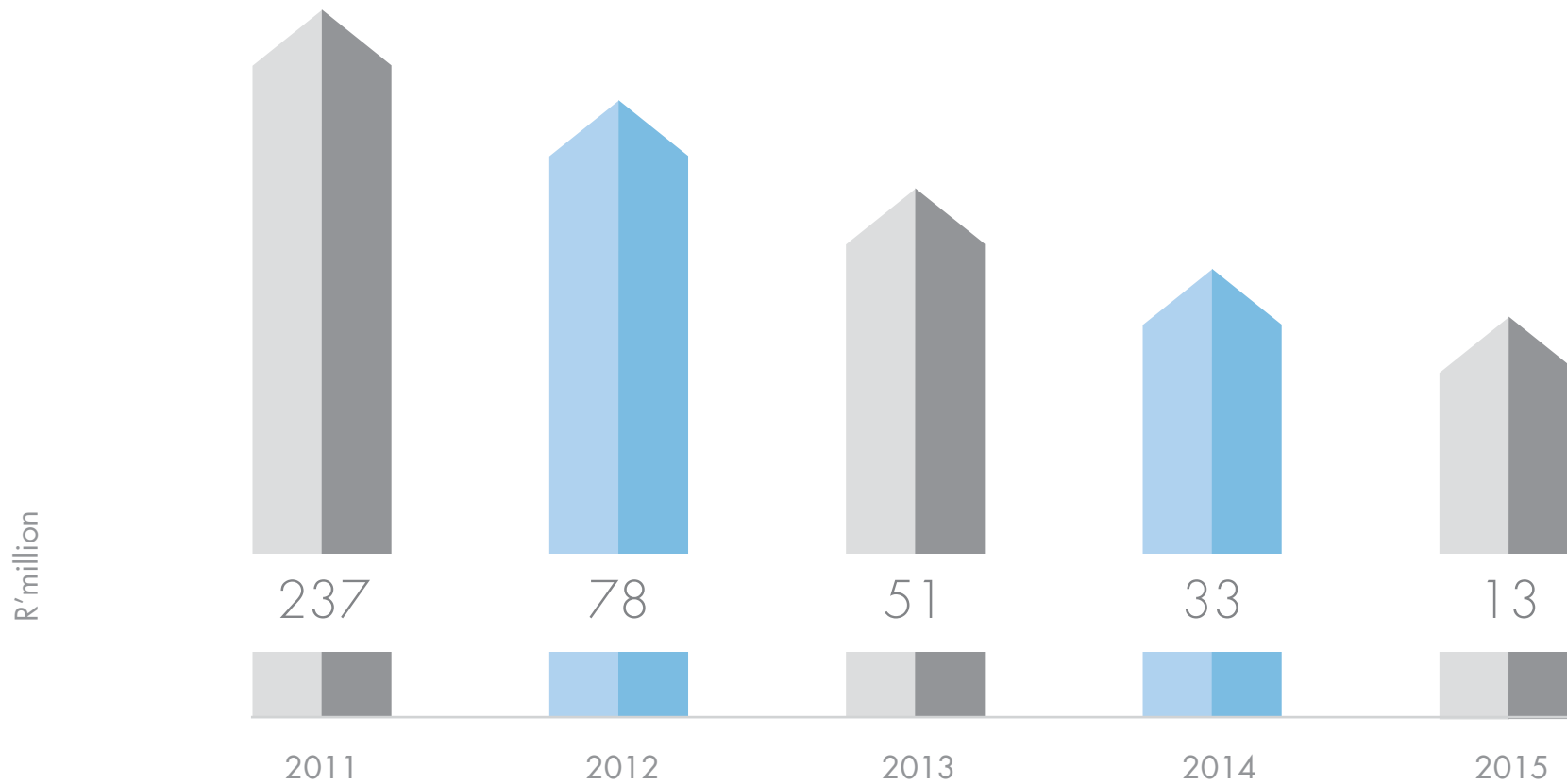
FIVE YEAR REVENUE



PROFITABILITY

DAe remains in a turnaround phase due to the historic structural misalignment between its revenue and cost base. DAe has achieved its corporate plan and exceeded financial performance for five consecutive financial years. Effective financial control and tighter operational efficiency across the business have been key to the improvement in trading profit. While there is still a great deal of work to be done, we are encouraged by the progress achieved to date.

NET LOSS FOR THE YEAR



DAe posted improved financial results during the year under review, with EBIT significantly better than the prior year. Operating costs continue to be managed conservatively in line with our efficiency objectives. Operating expenses decreased by 45% (R40m) compared to budget mainly due to impairment reversal and cost management initiatives.

WORKING CAPITAL

Working capital management has remained a primary focus for DAe. The average debtors' days outstanding were below 30 days. Strict controls are in place and no bad debts were written off during the financial year.

The inventory balance was higher due to buffer stock built up to prevent delays in the Airbus contract, and due to long lead times for certain stock items.

IMPAIRMENT

In the 2013/14 financial year DAe reversed impairment that related to property, plant and equipment that were impaired in the recent past due to a lack of orders, the impairment was only reversed where utilisation or productivity was above 70%. During the 2014/15 financial year, management reassessed the utilisation of the property, plant and equipment for which impairment were not reversed in the prior year and identified that in the current year all the remaining property, plant & equipment are operating at an acceptable level.

The impairment that was raised in prior years was consequently reversed with a net effect of R29 million in the profit and loss.

CASH FLOW

The net cash outflow for the year amounted to R94 million which was R76 million better than forecasted. The positive balance in the loan account at 31 March 2015 was R229 million and should be sufficient to carry the company until it becomes cash positive in 2015/16.

PROSPECTS

It has been a challenging but rewarding year and the company is pleased by this improved financial performance and the progress demonstrated across all areas of business. However, much work remains to be done in what is a difficult trading environment. Our strategic focus remains on the achievement of a break-even position in the 2015/16 financial year. This will be achieved through securing new business, including engineering services, and maintaining a high new order growth to drive revenue growth, and continuing the initiatives on efficiency and expense control.

Honey Shangase
Chief Financial Officer





BUSINESS FUNCTIONS

03



BUSINESS DEVELOPMENT

In support of the DAe growth path, a sustained focus on winning new business has led to the securing of significant work packages in line with our short to medium term strategy. The following key focal strategies were pursued:

- Diverse customer and product portfolio with bias towards the commercial aerospace market.
- Maximise market access opportunities to Tier 1 companies through strategic partnerships with current customers such as Airbus Defense and Space.
- Deepen strategic relationships with OEMs and their Tier 1 supplier companies.
- Diversification aimed towards localisation and state acquisitions in non-aerospace sectors.
- Targeted marketing in line with opportunities with the OEM's global sourcing strategy, within which South Africa is well positioned.



ACHIEVEMENTS AND HIGHLIGHTS:

- New contracts were secured adding R500 million to the DAe order book for the next five to seven years.
- GKN Aerospace, a UK based tier 1 company was incorporated as a new customer into the DAe portfolio. A joint bid by GKN Aerospace and DAe, led to Airbus Commercial's awarding of the contract manufacture the "plug and fly" Wing Pylon components for the A350-1000 XWB aircraft. This contract holds a significant relevance to DAe, as it embodies three pillars of the revenue growth strategy namely; new customers, new products and commercial work packages.
- Stelia Aerospace, a French-based Tier 1 company has also been added to the DAe customer portfolio. A contract for the manufacture of cargo ramp door toe panels for the A400M aircraft was secured from Stelia Aerospace during the year under review.
- The incorporation of two Tier 1 customers creates opportunities for substantial new business and the establishment of strategic partnerships in line with OEM global sourcing strategies.
- Strengthened partnerships with the Airbus organisation demonstrated by the signing of the Tri-partite Memorandum of Understanding (MOU) with Airbus Commercial and Aerosud Aviation. Various road mapping workshops on Industrial and Research and Technology were conducted, supported by the local aerospace stakeholders from government, research institutions and academia.
- DAe has won a contract to manufacture aluminium cabin interior components on the PRASA rolling stock programme. These contracts have been used to capacitate the socio-economic development and SMME development imperatives of the company. The manufacturing component of the contract is sub contracted to Tier 3 and Tier 4 non-aerospace suppliers as a means to develop them into future aerospace suppliers.
- The deepened industrial base of DAe has been used as a catalyst to facilitate further diversification into non-aerospace industries such as rail, to maximise the localisation drive by the South African government.
- Stronger alignment with the 20-year Ekurhuleni Aerotropolis initiative was achieved, increasing the significance of DAe's advanced manufacturing catalytic role within the core of the Aerotropolis zone.
- As part of the human capital development initiative, DAe has given effect to the MOU signed with Malaysian engineering services company, Strand Aerospace. A senior stress engineer has been seconded to Malaysia to conduct on the job training and to offer capacitation of the senior technical staff complement, an added advantage towards securing more significant work packages from the market, by Strand.

Victor Xaba

Deputy CEO & Executive Manager: Business Development

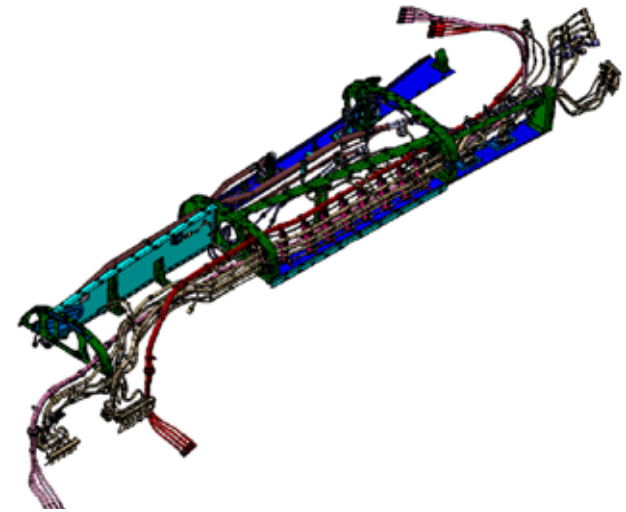
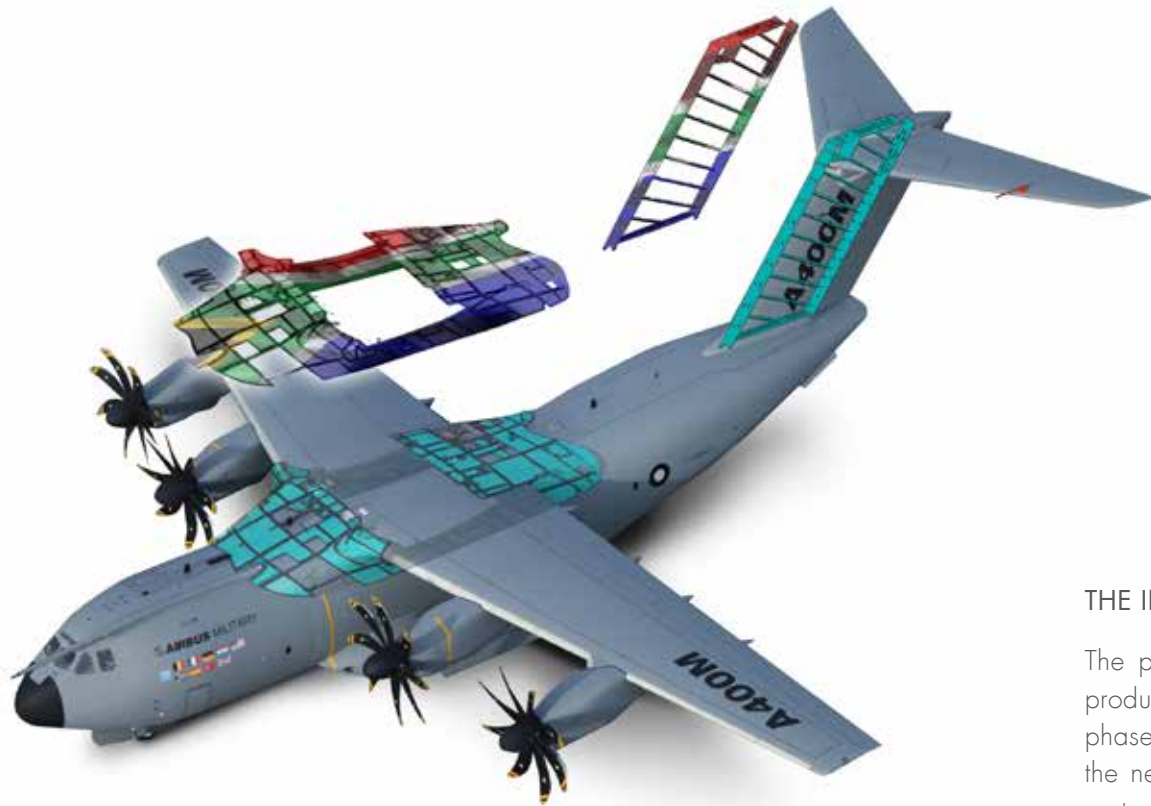


PROGRAMMES

MAIN PROGRAMME - AIRBUS A400M TACTICAL HEAVY LIFT AIRCRAFT

Denel Aerostructures (DAe) is contracted for the design, development, manufacture, supply and supporting activities of the Airbus A400M Wing-to-Fuselage Fairing (WFF), Top Shells (TS) and Ribs, Spars and Sword (RSS) structural components of the vertical tail plane. For this financial year, DAe embarked on an A400M early ramp-up schedule and was able to increase the production rate of WFF and TS from 16 to 24 ship sets.

At the end of March 2015, DAe achieved its 37th on time delivery of the WFF and 18th delivery of top shells (TS) against its contracted ship in place dates. This accomplishment enabled DAe to maintain a 100% on time delivery (OTD) performance for the entire year under review and is testament to the valuable efforts of all associated with the programmes.



THE INDUSTRIALISATION OF HONDAJET WINGLETS

The project reached an important milestone in the first quarter of 2015 with the production of the first winglets for HondaJet. The programme is in its initial ramp-up phase and the production rate will grow by approximately 50% year-on-year for the next three years. The HondaJet programme remains an essential part of DAe's customer and product growth strategy.

DAe was further awarded two long term work packages for the A400M Cargo Hold System (CHS) in early 2014 and industrialisation and first deliveries took place during the latter part of the year. For the new additions to the A400M family of programmes, ISO-Locks and Central Guide Vertical Restraint System (CGVRS) programmes were delivered according to schedule and met the accelerated demand to support an Airbus' Final Assembly Line requirement.

The commitment of Airbus to support DAe with positive references in the aerostuctures market place and a developing Airbus global procurement strategy has led to DAe securing work from Stelia (a cluster of EADS Sogerma and Aerolia) and GKN Aerospace. The Toe Panels for the A400M ramp door is a build-to-print work package from Stelia and is compatible with DAe's current manufacturing capability. The A350-1000 pylon secondary structures work package from GKN marks a significant milestone for DAe in terms of customer diversification and a breakthrough into the commercial aerospace market. The first programme deliveries for both work packages are planned for the third quarter of 2015.

UK, AIRBUS A350-1000 PYLON ATTACHMENT PARTS FROM GKN

DAe has been awarded a Build-to-Print contract for the manufacture of the secondary structure on the Airbus A350-1000 programme. The work package incorporates both machining and sheet metal detail parts . The Pylon secondary structure is located on top of the main structural pylon which holds the engine onto the wing of the aircraft. It's function is to support the fuel, hydraulic and wiring harnesses and provide the support to which the aerodynamics skin of the pylon is attached.

FRANCE, AIRBUS A400M CARGO RAMP DOOR TOE PANELS, FROM STELIA (FORMALLY SOGERMA)

DAe has been awarded a contract for the manufacture of the Airbus A400M Cargo Ramp Door Toe Panels work package on the Airbus A400M programme, and has been selected for the package valued at R7million with a potential for expansion to include other complementary work packages.

DENEL RAIL INITIATIVE

DAe has been awarded the contract to manufacture the baseboard ducts for the first 20 trains of the PRASA Rolling Stock programme. This is valued at R112 million over 10 years. Bidding for additional work packages continues, targeting both the Gibela consortium and their extended supplier network.

Pushing the boundaries of innovative thinking and remaining relentless to resolve the new product integration phenomenon will be major themes for the programmes department in 2014/15. With revenue growth as a key priority for DAe in the immediate future, the company will implement the lessons learnt on the integration of previous work packages and use it to ensure a seamless transition of concept or drawing to industrialised products.

Thivian Vadivelu
Executive Manager: Programmes



ENGINEERING

DEPARTMENT PROFILE

DAe, in collaboration with other Denel entities, acts as OEM of its own Denel aerospace products. It has also established a strong reputation as Tier 1 design partner to international OEMs such as Saab, Agusta Westland, and more recently with Airbus where DAe is design to Build programme partner on three A400M work packages.

The strength of DAe's engineering capabilities serves as a differentiator in the international aerostructures market. Its key foundation is the depth of experience vested in its 93 employees, created over 5 decades of aircraft development and industrialisation projects.

The business unit is structured in the following departments:



DEVELOPMENT

Chief engineers
 Design
 Structural Analysis
 Configuration Management

INDUSTRIALISATION

Process Design
 Tool Design
 NC Programming
 Materials Technology
 Laboratories

DESIGN

Design capabilities include all aspects of conceptual design, definition and development of metallic and composite airframe structures.

The CAD platform used is predominantly Catia V5 R21-R25. This is supported by Primes/Windchill as a PDM system. A digital mock-up (DMU) environment and exchange of data with global customers ensure effective management of interfaces.

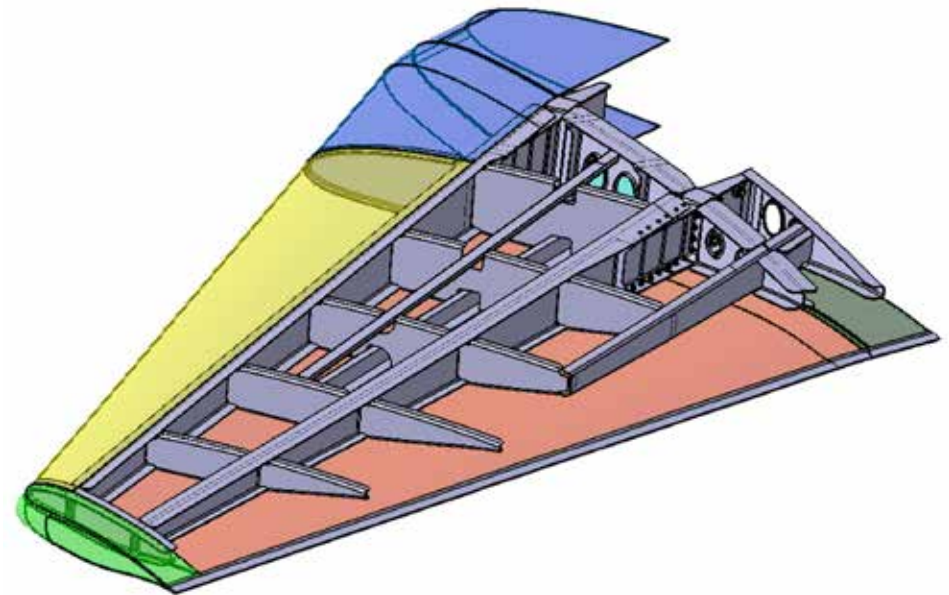


Figure 2 – Conceptual layout of a winglet

CONFIGURATION MANAGEMENT

Business CM processes are aligned to ISO 10007 and various customer standards. Resources are CMII certified and electronic tools are eB for EBOM and QMuzik (ERP system) for MBOM management.

STRUCTURAL ANALYSIS

Structural analysis uses both classical and numerical methods and both linear and non-linear analysis. Special emphasis is also placed on stability failure modes and phenomena such as buckling and warping.

Fatigue analysis of mechanical components focuses on areas such as:

- Fatigue due to variable amplitudes loading.
- Multi-directional stresses.
- Hybrid approach that involves analyses and ground testing.

DAe regards itself as an expert in applied fracture mechanics or Damage Tolerance Analysis, as well as aero-elastic analysis of airframes.

FIBROUS COMPOSITE MATERIAL ANALYSIS

DAe is positioning itself as an important contributor in the emerging field of design and structural analyses of fibrous composite materials, focusing on:

- Stress analysis (special to anisotropic composite materials).
- Failure mechanics in composite materials (at macro, meso- and micro-scales).
- Analysis of Impact on composites and their associated failure mechanisms (e.g.: fibers and matrix fracture; delamination; debonding).
- Low energy impacts (e.g. tool drops, barely visible damages)
- Medium energy impact (hail, ice-hit, debris).
- High energy impacts (bird-strike; high-energy debris; battle-damage).
- Environmental effects on the structure.

CERTIFICATION TESTING & SIMULATION

DAe has established niche skills in Particular Risk Analysis (PRA) testing & certification. Examples of capabilities are bird strike testing, ice strike testing and lightening strike testing. Software tools include Patran, Nastran, Marc, Adams, Dytran, CEI Insight etc, and is supported by in-house software and techniques to 'automate' the analysis process.

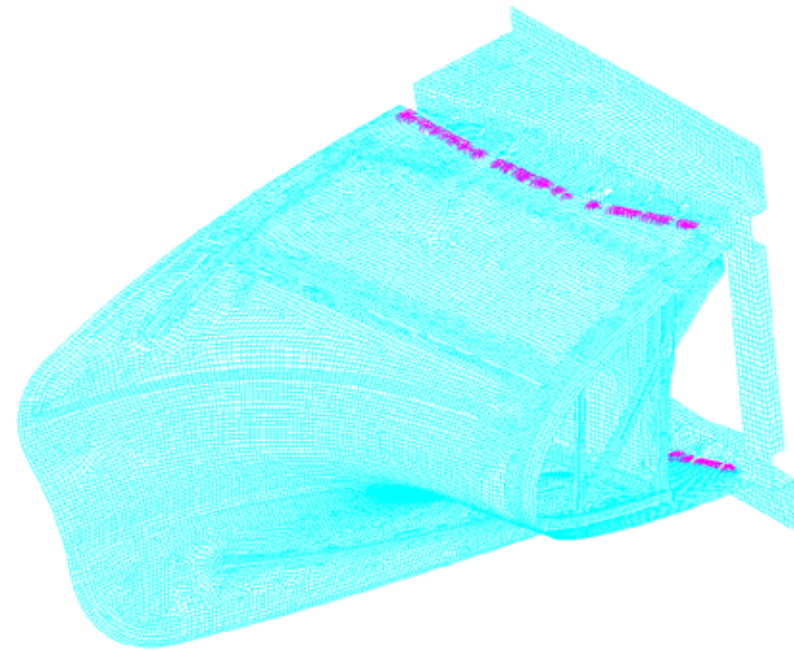


Figure 3 – Non-linear Finite element model (FEM)

INDUSTRIALISATION

Industrialisation is responsible for the development of a Lean Production system and processes for production of aerospace quality parts, at internationally competitive rates. It also specifies new plant and equipment for capital investments and do cost and schedule estimates for the industrialisation and production of new Design-to-Build (DTB) work packages. More specific functional responsibilities are:

- Process design is responsible for the provisioning of production methods and tools to enable the efficient and cost effective production of parts through DAe's manufacturing facilities, through all stages from bid to development project to serialised production program.
- Materials Technology is responsible to translate customer requirements on special processes into company procedures certified to international Nadcap accreditations. This includes Heat treatment, chemical processing, painting and composites manufacturing
- NC Programming is responsible for the preparation of CNC machining and inspection tapes and manufacturing and acceptance of the First Article Inspection regarding NC-Machining processes.
- Tool design is responsible for Design and development of tooling and jiggig for part and assembly production and management the manufacturing and acceptance of the First Article Inspection regarding Tools
- The Laboratories is responsible for production control testing and qualification and certification tests

Willie van der Walt
Executive Manager: Engineering





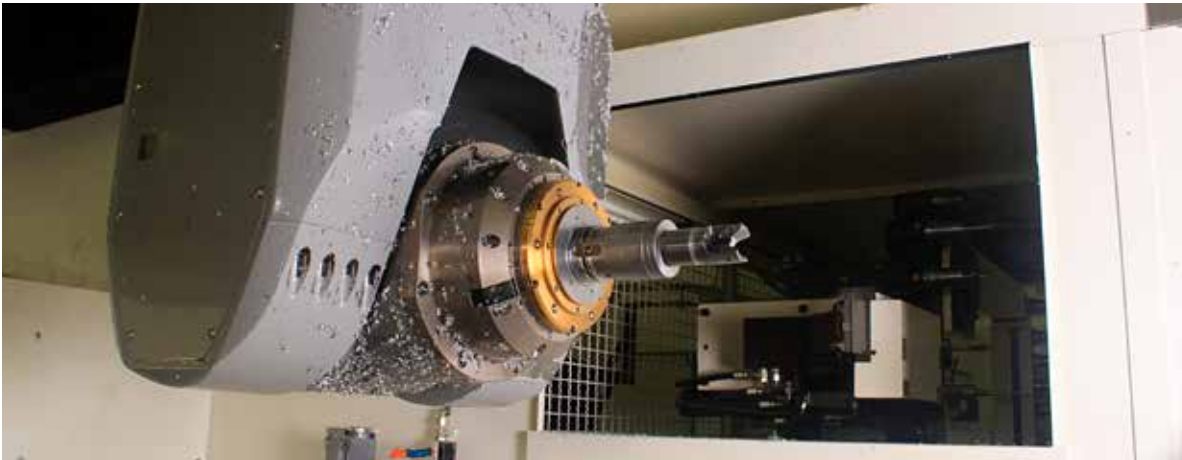
OPERATIONS

OPERATIONAL FOCUS

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

ADVANCED MACHINING

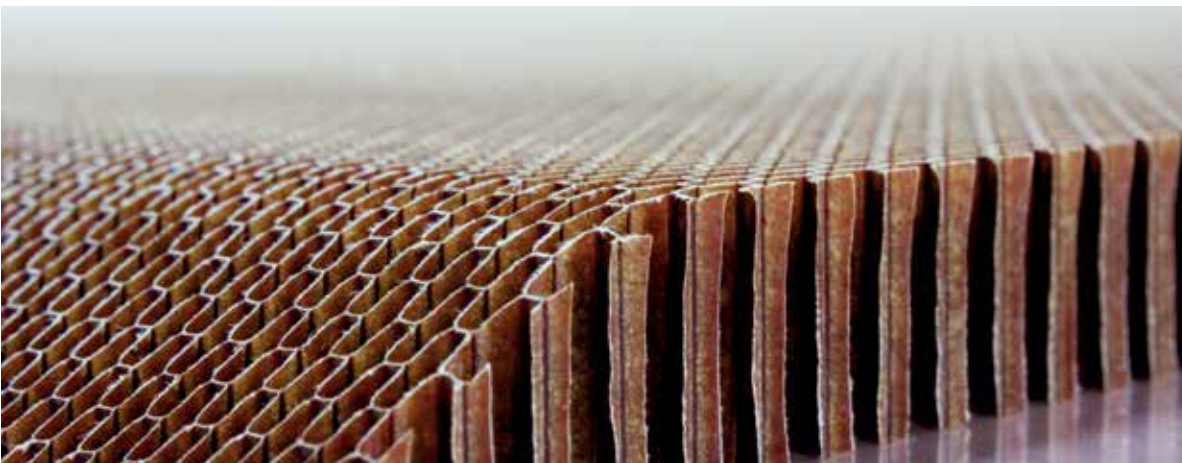
DAe Machining Facility consists of a main NC machining department for all major parts, dedicated CMS machining cells for composite panels and sheet metal stringers, and a jig boring cell and conventional machining cell.



- 5 Axis high speed machining, up to 6.5m
- 3 Axis machining up to 5m
- Jig boring, grinding and conventional machining
- CMM Inspection
- 5 Axis routing - large scale up to 16m

COMPOSITES

The activities in the Composite Facility range from the manufacture and assembly of simply to complex double curved lightweight composite parts.



- Utilise glass fibre, Kevlar, and pre-preg carbon materials, as well as metal bonding (fixing of metallic parts to composite structures)
- Typical assemblies range from Cowlings, Fairings, to A400M composite panels. The facility has Class 7.5 & 8 rated clean rooms
- 3x Autoclaves (up to 13m in length)
- Ultrasonic, A & C Scanners
- Phased array inspection

SPECIAL PROCESSES

The Special Processes Facility comprises of Heat treatment, Surface treatment, Non-destructive testing (NDT) and Painting.

- Chrome, hard and Sulphuric Anodizing
- Picking
- Chemical Milling
- Sulphuric Etch
- Large scale up to 8m
- Paint Shop - 5 paint booths 4 spray curtains and 24m drying tunnel



SHEETMETAL

Three major activities take place at the Sheet Metal Facility comprises of pressing, stretching and hand forming

- Fluid cell press
- 5-axis CNC Router and Drilling
- Close tolerance, temperature controlled facilities
- Hand Forming
- Semi-automated C Frame riveter reach of 2m
- Press and roll forming



COMPLEX ASSEMBLY

Activities at the Assembly Facility include the assembly of conventional metallic airframes, as well as metal-to-composite assemblies.



- Sub-Assemblies: T&J sub assemblies, Bearing and Bush Installation
- ICY Jigs
- Semi-automated C-Frame Riveter
- Leica Laser Inspection

CAPACITY GROWTH UTILISATION

Future capacity growth of critical technologies as identified in the 2015 - 2016 sales and operations plan requires large scale, high-speed, 5-axis milling, autoclave and non-destructive testing capacity. Greater focus is being placed on ensuring overall equipment effectiveness (OEE). This is achieved by implementing the following strategies:

- Maximising equipment availability through investment in critical spare parts and stronger partnerships with maintenance service providers.
- Enhancing productivity through lean manufacturing as part of our sustained transformation and enhancement program (STEP) and placing more focus on manufacturing process development and innovation.
- Optimising capacity utilisation through the introduction of shift work and flexi time on all critical equipment to meet ever-growing demands.
- Utilising the first-time-pass tool to identify parts with the potential for improved producibility / repeatability has initiated industrialisation projects to reduce rework and scrap levels.

STRATEGIC OBJECTIVES

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

Alan Robertson
Executive Manager Operations



QUALITY

COMMITMENT TO QUALITY

An enduring commitment to quality management is at the core of Denel Aerostructures' ability to be a recognised player in the highly competitive aerospace industry. Quality management runs like a thread through all of the company's activities – from design, through training, all engineering and manufacturing processes, as well as its relationships with suppliers.

It is part of DAe's core values and among the most important qualities the company offers its clients. In an environment where the quality of workmanship is measured in microns, DAe has established a global reputation for its adherence to excellence.

ACCREDITED BY:



CERTIFIED BY:



APPROVED BY:



US BUSINESS JET

BAE SYSTEMS



Chemical Processing

Certificate Number: 5454163057

Expiration Date: 31 January 2017

Heat Treatment

Certificate Number: 5454159207

Expiration Date: 31 October 2016

Composites

Certificate Number: 5454156220

Expiration Date: 31 October 2015

Non Destructive Testing

Certificate Number: 5454163033

Expiration Date: 31 July 2016

Others:

ISO 18001: OHSAS 18001 Occupational health and safety management systems.

ISO 14000: Environmental Management System (EMS).

BUREAU VERITAS (BV) Certification

AS 9100

Revision C Certificate No: FR017312-1

OEM Approvals:

- BAE SYSTEMS Approval No: BAE/AG/10547/MAA
- SAAB Approval INS 00390
- AGUSTA WESTLAND Approval No: A/0988
- IAI Approval / HONDA JET Approval
- AIRBUS E0016 Approval



QUALITY CONTROL

The inspection department has achieved a 25% improvement in throughput using the same amount of resources.

MECHANICAL

Through a laser scanner DAe has industrialised more than 80 components onto the 'Romar arm', which in turn has assisted the company with the additional workload. This equipment is both reliable and accurate in verifying smaller 'high volume' parts typical to numerous current projects. DAe has also implemented a sampling plan on its subcontract inspection, in turn, emancipate significant capacity.

NON-DESTRUCTIVE TESTING (NDT)

During the 2014/2015 financial year, DAe invested in the upgrade of its Scan Master DS2000 ultrasonic testing machine. This has significantly increased our ultrasonic throughput capacity.

The students in the NDT discipline of 'ultrasonic scanning' successfully progressed to level 1 and have just completed their level 2 training, which will then allow them full signing and acceptance authority. The non-destructive programme within the NDT department has been further expanded and now include a further two students on the metallic side of NDT, empowering them by providing theoretical and practical training.

COMPOSITES

Predominantly due to 'industrialisation' the work load on current new projects has increased exponentially, resulting in major increases in requirements for Metronor inspections. However in the light of all the additional inspections performed, DAe has successfully engaged with the OEM's in developing realistic and repeatable tolerances, dramatically reducing inspection requirements.

SAFETY HEALTH AND ENVIRONMENT

During the year, the process of certification for two management systems, ISO14001 and OSHAS18001 was completed. All findings were closed and submitted back to the certification authority.

DAe expects to receive the certification early in the next financial year. A new SHE Management System has been developed and will be operational in the first half of the new financial year.

Chris Hughes
Executive Manager: Quality



CORPORATE GOVERNANCE

04



FIKILE MHLONTLO (46)
Acting Chairman

GROUP CHIEF FINANCIAL OFFICER
BCompt, BCompt (Hons), CTA, CA(SA) and attended various leadership courses; part of the Denel Executive Leadership Programme

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

DIRECTORSHIPS: Non-executive director of RDM, Tawazun Dynamics, Airbus DS Optronics SA, DAe, LMT and Densecure, as well as trustee of Denel Post-Retirement Trust. Former director and audit partner of one of the big four audit firms and held various management positions. Trustee of the LoveLife board and member of the audit and risk committee.

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

Appointed to the Board in November 2008



ABDUL CARIM (49)
Non- Executive Director

DEPUTY CEO OF DENEL AVIATION
B Com, BAcc, CA (SA)

DIRECTORSHIPS: Non-executive director of DAe, permanent invitee to Denel audit and risk committee

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

Appointed to the Board in August 2012



THEO KLEYNHANS (54)
Executive Director

CHIEF EXECUTIVE OFFICER DENEL AEROSTRUCTURES
BEng (Electronics), MBL and Denel Executive Leadership Programme

DIRECTORSHIPS: Executive director of DAe.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Engineering, operations and business management and executive leadership experience.
Former deputy CEO of DAe.

Appointed to the Board in November 2014



HONEY SHANGASE (30)
Executive Director

CHIEF FINANCIAL OFFICER

B Com Degree, B Com (Hons) (CTA), ACCA, MBA

OTHER DIRECTORSHIPS: Executive director of DAe, permanent invitee to Denel audit and risk committee

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Accounting and financial management, Business planning and analysis, Financial analysis and reporting, Growth strategy development and implementation, Corporate governance

Appointed to the Board in January 2015



PHALADI PETJE (49)
Non- Executive Director

CHIEF EXECUTIVE OFFICER: DENEL PRETORIA METAL PRESSING

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

DIRECTORSHIPS: Non-executive director of DAe.

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

Appointed to the Board in November 2014



THEMBA ZWELIBANZI (51)
Non- Executive Director

GROUP RISK AND COMPLIANCE MANAGER, DENEL SOC LTD

BCom, Advanced Programme Risk Management, Diploma Human Resources, Graduate Diploma in Company Direction

DIRECTORSHIPS: Permanent invitee to audit and risk, social and ethics committees, non-executive director and member of DAe audit and risk committee, trustee of DMBT, Chairman AMD Arms Control work group, non-executive director and member of the audit, risk and finance committee of SACCI and board member of Densecure SOC Ltd.

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

Appointed to the Board in November 2014

BOARD OF DIRECTORS

EXECUTIVE MANAGEMENT





THEO KLEYNHANS (54)
Executive Director

CHIEF EXECUTIVE OFFICER DENEL AEROSTRUCTURES
BEng (Electronics), MBL and Denel Executive Leadership Programme

DIRECTORSHIPS: Executive director of DAe.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Engineering, operations and business management and executive leadership experience.
Former deputy CEO of DAe.

Appointed January 1983,
(Appointed CEO in November 2014)



VICTOR XABA (35)
Deputy Chief Executive Officer:
Denel Aerostructures

NDip (Chemical Eng), BTech (Quality), Diploma in Project Management, Senior Management Programme

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Process engineering, engineering management, operations, Project management, business development and marketing.

Appointed: July 2001
(Appointed Deputy CEO in December 2014)



HONEY SHANGASE (30)
Executive Director

CHIEF FINANCIAL OFFICER
B Com Degree, B Com (Hons) (CTA), ACCA, MBA

OTHER DIRECTORSHIPS: Executive director of DAe, permanent invitee to Denel audit and risk committee

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Accounting and financial management, Business planning and analysis, Financial analysis and reporting, Growth strategy development and implementation, Corporate governance

Appointed January 2015



ALAN ROBERTSON (55)
Executive Manager Operations

Post Graduate Certificate in Management (Henley), National Technical Diploma, N4, N5, N6 certificates, Leadership Development Program for S.A.A., Finance for Non – Financial Managers courses (GIBS and SAA), A/C Maintenance & Reliability (Florida, USA)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

SAA Technical, operational management, managing complexity and high pressure on-time deliveries.

Appointed May 2009



SITHEMBILE BHENGU (37)
Executive Manager Human Capital
and Transformation

Hons BA Soc Sc; Postgraduate Diploma in Human Resources Management & Leadership Development for People Managers

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

15 years' experience in general Human Resources management at both tactical and strategic levels; acting as a change agent and champion for transformation; skills development specialist as a Training Manager & SDF levels. Experience acquired in private sector in a variety of industries including Pharmaceuticals, Management Consulting & Financial Services.

Appointed October 2013



WILLIE VAN DER WALT (47)
Executive Manager Engineering

B Eng (Chemical Eng)- UP, B Eng Hons (Corrosion) - UP,
ELP – UNISA SBL

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Engineering, Industrialisation, Executive Leadership

Appointed: August 1999



CHRISTOPHER HUGHES(54)
Executive Manager Quality

T2, Airframe and Engine Trade Test, Diploma in Business
Administration.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Airframe and Engine maintenance, repair and overhaul.
Engineering Planning/Producability, Engineering Planning
Manager, Diverse Production Program Manager,
Production Assembly line Executive Manager, Quality
Executive Manager.

Appointed January 1987



THIVIAN VADIVELU(43)
Executive Manager Programmes

BSc. Mechanical Engineering (Wits)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Loads and Structural Analysis, Contract Negotiation,
Risk and Programme Management

Appointed September 2008



CORPORATE GOVERNANCE

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

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

The governance framework has been developed to meet the DAe's strategic objectives, compliance requirements, balancing the interests of stakeholders, minimising and avoiding

conflicts of interest, and practicing good corporate behaviour. Sound corporate governance practices are implicit in its values, culture and processes.

The directors and management manages the company in an efficient, accountable, transparent and ethical manner, under the auspices of its parent company, Denel SOC Ltd. This ethos is embedded in all of the company's activities and, thus, DAe's governance framework encompasses more than compliance and legislation. This is also confirmed by the positive feedback on our annual year-end audit process.

RESPONSIBILITY AND ACCOUNTABILITY

The Board provides leadership and strategic oversight and oversees the control environment to achieve and sustain value to the DAe's Shareholder and stakeholders. The Board ensures adherence to principles of good governance and accountability. All of the members of the Board are individually and collectively aware of their responsibilities to the DAe's stakeholders, and each director brings experience, independence of character and

sound judgement. The Board ensures regular review of its performance and core governance.

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

BOARD STRUCTURE

DAe has a unitary Board, comprising of two executive directors, the CEO and the CFO, as well as four non-executive directors.

In accordance with the Denel Memorandum of Incorporation (approved by DPE), section 13.5 of the MOI deals with the appointment of Directors to the Boards of the wholly-owned Subsidiaries. It stipulates that:

i. For so long as the State is the sole Shareholder, it is recorded that the Boards of the wholly-owned Subsidiaries of the Company should, subject to clause (ii) comprise of employees of such Subsidiaries or the Company.

ii. It is recorded that, should any wholly-owned Subsidiary of the Company wish to appoint Directors who are not employees of the Subsidiary or the Company, such appointments shall be approved by the Shareholder in Writing.

In compliance with the above and at the DAe Annual General Meeting held on 11 November 2014, the Shareholder, Denel, approved that Dr Gert Cruywagen step down from the DAe Board of directors as non-executive director and Chairman. The resignation of Ms. Bulelwa Paledi as non-executive director was accepted as well.

Furthermore, the Shareholder approved the appointment of Mr Themba Zwelibanzi and Mr Phaladi Peije from the Denel Group, as non-executive directors on 27 November 2014 and in compliance with the number of directors required in terms of the DAe Memorandum of Incorporation.

Mr. Ismail Dockrat tendered his resignation as Chief Executive Officer and Executive Director on 20 November 2014, following his appointment as CEO of Denel Integrated Systems and Maritime.



The Shareholder appointed Mr. Theo Kleynhans as Chief Executive Officer and Executive Director on 20 November 2014. Consequent to the Chief Financial Officer's resignation on 1 August 2014, Mrs Honey Shangase was elected by the selection committee and duly appointed as Chief Financial Officer and Executive Director by the Shareholder on 19 January 2014 in accordance with the DAe MOI.

Subject to further notification by the Shareholder, the interim DAe Board shall comprise of the following members in compliance with the Denel and DAe Memorandum of Incorporation:

- Mr Fikile Mhlontlo (Acting Chairman & Non-executive)
- Mr Abdul Carim (Non-executive)
- Mr Themba Zwelibanzi (Non-executive)
- Mr Phaladi Petje (Non-executive)
- Mr Theo Kleynhans (Executive)
- Mrs Honey Shangase (Executive)

APPOINTMENT AND RETIREMENT OF DIRECTORS

In terms of DAe's Memorandum of Incorporation, the Shareholder appoints the Chairman and the directors of the Company. The Shareholder reviews the composition of the Board on a regular basis which ensures the rotation of directors at regular intervals. The term of

office for the non-executive directors is a period of three years. Their terms of office are subject to an annual review by the Shareholder and confirmed at the Annual General Meeting (AGM).

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

DIRECTORS' FORMALISED APPOINTMENT AND REMUNERATION

The executives have contracts of employment with the Company and are subject to Denel's conditions of service.

The non-executive directors had their appointments formalised by a letter of appointment from the Shareholder. This appointment letter indicated the non-executive Directors' terms of office, as well as information pertaining to their remuneration.

By virtue of the DAe Board being a wholly-owned subsidiary of Denel, the DAe Board comprises of employees of Denel. During the financial year, the DAe Board was reconstituted to comprise of Denel Executives only and therefore no director's remuneration is payable.

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS, AND PERFORMANCE EVALUATION

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

In terms of the above, the results of the Board evaluation was considered and analysed by the company secretaries and tabled at the Annual General Meeting of 2014. Overall positive scores were received and recommendations have been implemented to improve the Board's effectiveness.

MANAGING CONFLICT OF INTEREST

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

BOARD INDUCTION AND SHARING OF INFORMATION

New directors undergo a detailed induction to ensure a comprehensive understanding of DAe's legislative framework, governance processes, delegation of authority and business operations. Each director is furnished with a comprehensive induction pack which includes statutory company documents, annual financial statements, profiles, policies and minutes of meetings. Directors are continuously briefed on relevant new legislation and regulations.

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

BOARD MEETINGS

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



THE FOLLOWING TABLE DEPICTS THE MEETINGS OF THE BOARD AND THE ATTENDANCE OF EACH MEMBER:
BOARD MEMBERS' ATTENDANCE FOR THE MEETINGS CONVENED DURING
THE PERIOD 1 APRIL 2014 – 31 MARCH 2015:

	24 Jul 2014	11 Nov 2014	11Mar 2015		Notes
Mr G C Cruywagen (Chairman)	√	√	R	2/2	Resigned 11 November 2014
Mr I Dockrat (CEO)	√	√	R	2/2	Resigned 20 November 2014
Ms V Ravjee (Co. Sec.)	√	√	√	3/3	
Ms B Paledi	√	R	R	1/1	Resigned 15 August 2014
Mr A Carim –	√	√	√	3/3	
Mr F Mhlontlo	√	√	√	3/3	Acting Chairman 11 November 2014
Ms C Slabbert	A	R	R	0	Resigned 1 August 2014
Mr. P.Petje	-	-	√	1/1	Appointed 27 November 2014
Mr T. Kleynhans	-	-	√	1/1	Appointed CEO 20 November 2014
Mr. T. Zwelibazi	-	-	√	1/1	Appointed 27 November 2014
Ms H Shangase	-	-	√	1/1	Appointed CFO 19 January 2015
INVITEES					
Mr R Saloojee	√	A	A	1/3	
Mr T Kleynhans	√	√	-	2/2	Appointed CEO 20 November 2014
Mr. A Calitz	√	√	√	3/3	
Mr V. Xaba	-	-	√	1/1	Appointed Dep CEO 20 November 2014

R - Resignations Terminations

A - Apology

COMPANY SECRETARIAL

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

BOARD COMMITTEES

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

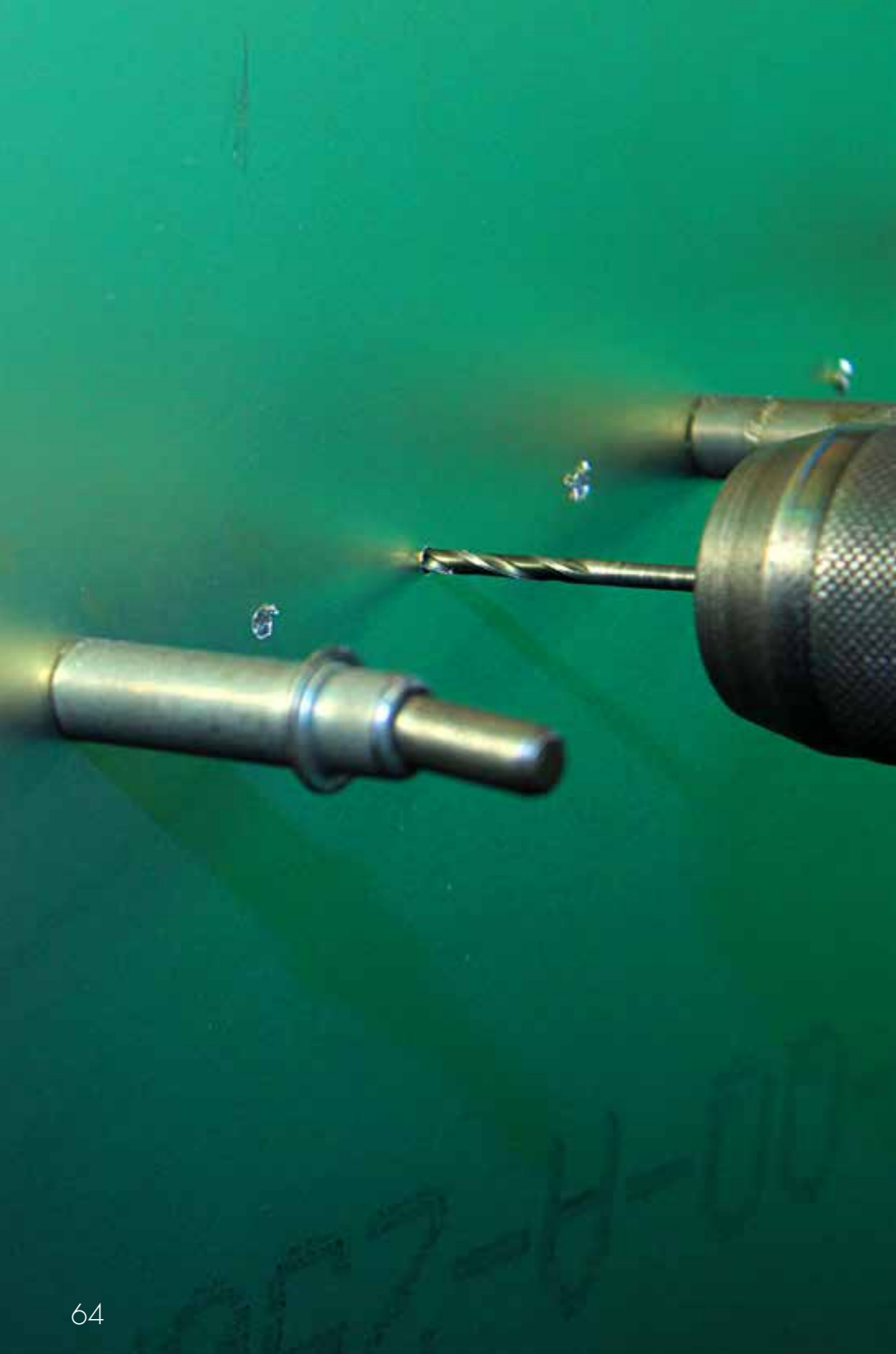
DAe reports directly to the Denel personnel, remuneration, and transformation committee, and the Denel social and ethics committee as provided for in the Companies Act.

The Audit and Risk Committee's role, responsibilities, and membership are in accordance with their terms of reference as approved by the Board. These terms of reference are reviewed annually to ensure they remain in line with relevant regulations, Company's requirements, and business climate in line with best practice in corporate governance.

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

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





AUDIT AND RISK COMMITTEE

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

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

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

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

The committee has an annual work plan to ensure that all relevant matters are covered by the agendas of the meetings planned for the year as laid out in its terms of reference



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

ATTENDANCE AT AUDIT AND RISK COMMITTEE MEETINGS

	22 May 2014	24 July 2014	11 March 2015		Notes
Members					
Mr F Mhlontlo	√	√	A	2/3	Chairman till 11 November 2014 Chairman from 11 November 2014
Mr T Zwelibanzi	√	√	√	3/3	
Mr A Carim	√	√	√	3/3	
Ms V Ravjee (Company Secretary)	√	√	√	3/3	
Internal (Deloitte)					
Ms I Gray	√	√	√	3/3	
Ms S Tekwane	-	√	-	1/3	
External (SNG)					
Ms A Maloney	√	-	-	1/3	
Mr S Moyo	√	√	-	2/2	
Mr M Moyo	-	-	√	1/1	
Ms P Nhantsi	√	√	√	3/3	

	22 May 2014	24 July 2014	11 March 2015		Notes
Invitees					
Mr I Dockrat (CEO)	A	√	R	1/2	Resigned 20 November 2014
Mr T Kleynhans	√	√	√	3/3	Appointed CEO 20 November 2014
Ms C Slabbert	√	A	R	1/2	Resigned 1 August 2014
Mr A J R Calitz	√	√	√	3/3	
Ms L Viviers	A	√	√	2/3	
Mr J Manzini	√	√	√	3/3	
Ms S Bhengu	-	-	√	1/1	
Ms H Shangase	-	-	√	1/1	Appointed CFO 19 January 2015
Mr V Xaba	-	-	√	1/1	Appointed Dep CEO 20 November 2014

R - Resignations / Terminations

A – Apology



STAKEHOLDER ENGAGEMENT

DAe remains committed to building and sustaining strategic relationships with key stakeholders within the national Government sectors and local and global aerospace community, as a catalyst for broadening our customer and supplier base. DAe continued to position its brand as a centre of excellence for technology leadership, including the design and advanced manufacturing of ultra-light weight metallic and composites aerostructures in South Africa.

In support of national Government developmental imperatives and policies such as the NDP, NGP, IPAP, and ASDP, DAe has participated in various initiatives such as the visioning workshop and road mapping workshops hosted by CSIR, aimed at widening the aerospace manufacturing industry in South Africa, with the support of DPE. Our membership in national industry and sector forums such as JASC, IASSA and the AMD provide value adding participation and relationship development. In support of localisation (CSDP) and industrial participation policies, DAe continues to engage various fora, other State Owned Companies and structures within the DTI in effort to maximise the benefit from future state acquisitions within the aerospace sector. These include SAA, SAX, SAA Technical, AISI, CSIR, CAASA, NT, DoT, SAAF, IDC, and the DST.

DAe has been an active participant in the DPE-led Oversight Committee on the SAA (South African Airways) and SAX (South African Express) fleet acquisitions aimed at maximising the industrial benefits (National Industrial Participation) that will arise from these acquisition programmes.

SHOWS AND EXHIBITION

DAe's global marketing strategy has been fundamental to an increased participation in shows and exhibitions, largely as a drive to create market presence and improve our engagements with stakeholders and customers. A strong presence was maintained at key international aerospace exhibitions such as Airtec (Germany), Farnborough (UK), and the AAD (South Africa).

DAe hosted and participated in various direct engagements with potential customers in meetings, exhibitions, facility tours, technical workshops (such as the Airbus/Aerosud road mapping workshops) and business-to-business meetings both locally and abroad. Supplier conferences hosted by Airbus Defense and Space and Honda Aircraft Company were also attended in order to deepen networks and relationships.

INBOUND VISITS

Delegations from across the globe visited DAe facilities to experience world-class advanced manufacturing and engineering capabilities. The visits included delegations from OEMs such as Airbus (Germany and France), Boeing (US), Honda Aircraft (US), Bombardier (Canada), Honeywell (US) and Tier 1 companies including GKN Aerospace(UK), GE Aviation (US), Stelia Aerospace (UK), Spirit Aero systems (UK), AAR (US) local and international state institutions.

INFORMATION, COMMUNICATION AND PARTICIPATION

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

MY DENEL MY VALUES CAMPAIGN

Following the successful launch of the 'My Denel My Values' campaign by Denel Group, DAe sustained activation and awareness campaigns of the values across all levels of the organisation. These include, quarterly CEO recognition awards to employees that have been noticed by their peers to be Denel values ambassadors and participation of the divisional ambassadors at the overall annual Denel group CEO awards.

IMBIZOS

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

LEKGOTLA

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

CAMPAIGNS AIMED AT EMPLOYEE PARTICIPATION

DAe remains committed to matters of transformation, diversity and supporting national key initiatives. To increase employee awareness, the business development team embarked on a strategy of participative celebrations to ensure the engagement of all employees. Part of the strategy includes celebrating key milestone achievements of DAe during the 2014/15 financial year as well as national and international initiatives.

The following national and international initiatives were supported and celebrated:

- Women's Day
All female employees attended Denel Group women in a defense dialogue event that was held during women's month. The event afforded women in Denel with an opportunity to engage with leadership on gender-based challenges and opportunities within the industry.
- HIV/AIDS Awareness
DAe continues to raise awareness on the HIV and AIDS pandemic. During this financial year, DAe held a voluntary testing day, making testing accessible to all employees. A candle lighting ceremony was held to remember those that have been lost to the pandemic. DAe hosted delegates from the Ekurhuleni Health clinic, who gave an insightful talk about living with the disease and fighting stigma in communities.
- Cancer Shavathon
DAe supports this worthy cause by showing solidarity with those living with or affected by cancer. Employees shaved off and stencilled their hair to demonstrate solidarity and messages of hope and support were written out by employees. The event was supported by all DAe employees.
All proceeds raised from the initiative were donated to the CANSA foundation.
- Mandela Day
Denel Aerostructures annually commemorate this day to honour the legacy of the late Mr Nelson Mandela, the former South African President, and his values, through volunteering and community service.
During this financial year DAe, in full participation with our employees, took some time off the busy production schedule to offer support at the Elethu Home for the disabled, based in Daveyton.
Denel employees and senior managers spent the day cleaning the home, weeding the garden for a vegetable patch and did some maintenance work around the home.
Elethu Home is adopted by DAe as part of its community development project. In line with the CSI terms of reference, the relationship is expected to be a fruitful one that will assist the home to achieve a sustainable state.





RISK MANAGEMENT

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

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

CODE OF ETHICS

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

INTERNAL CONTROL

The Board oversees the system of internal control within DAe, whereas the implementation and functioning of these systems rests with the executive management team. The Audit and Risk Committee is presented with a formal review of the effectiveness of the Company's internal controls on a regular basis. This review is informed by the combined assurance matrix, which identifies significant processes and assurances that are being provided. There are reports from management on specific areas, internal audit, external audit and other independent assurance providers that are tabled from time to time.

INTERNAL AUDIT

The function of internal audit is to appraise the adequacy and effectiveness of DAe's systems of internal control. This function has been outsourced to Deloitte.

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

RISK GOVERNANCE

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

RISK GOVERNANCE PROCESS

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

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

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

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

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

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

BUSINESS RISK PROFILE

Risk Description	Key Success Factors	Impact(s)	Affected Stakeholders	Opportunities	Mitigating Actions
Complexities of Programmes	Supply chain processes Human resources Industrialisation On time deliveries Project baseline changes Sustainability	Production rates Program slippages Reputational damage Product Recall Single customer vulnerability	Customers Employees Sub-contractors	Expand process capabilities Increase skill levels Design/Engineering improvement opportunities New customers	Continuous review and evaluation of processes Ensure robust Quality assurance Improve SLA's with suppliers Dynamic disaster recover/ business continuity plan Focus on customer interface
Timeous Placement of Orders	Accurate MPS Alignment of orders to capacity	Late deliveries Not meeting operational and financial targets Cost escalations	Customers Material suppliers	Improve customer relations Dynamic and accurate MPS/MRP system Improvements and expansion of supplier base Long term strategic view of various business scenarios	Ensure effective baseline management controls First time pass tool to be actively used for ensuring compliance to design requirement Procure critical spare parts
Changing Technology	Technology relevance and competency Information technology Meeting new customer requirements	Redundant systems Technology ageing Inadequate capability Product offering limitation	Customers Shareholders	New technologies Improve existing processes New machinery Introduction of new skills set Improved back-up solutions	Continuous improvement plans Focus on effective change management Design to build packages Mission critical PC's to have secondary hardware systems in place Replacement/back-up plans to be in place

Risk Description	Key Success Factors	Impact(s)	Affected Stakeholders	Opportunities	Mitigating Actions
Human Resources	Improve skills transfer Transformation Succession Planning Enterprise Development	Employment equity B-BBEE level classification Skills attrition	Employees Organised labour Shareholders	Cross training/skills development Middle management transformation Manage interventions aligned with new B-BBEE codes	Furthering National Transformation Agenda Address transformation shortcomings at middle management levels Succession plans to be in place for key and scarce resources
Legal and Regulatory Compliance	Compliance to Standards Successful Audits License compliance	Reputational damage Failure to maintain accreditations and certifications Penalties Increased audit costs	Regulators Shareholders Customers Employees	Improve business processes Regulatory compliance Maintain all certifications and accreditations Expand certification scope	Legal compliance audits Special process audits SHE and security awareness Comply to all regulatory authority requirements for Quality Management and SHE Management systems



FRAUD AND CORRUPTION RISK

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

DAe communicates its stance against fraud and corruption to its employees and business partners. The Board social and ethics committee plays a critical role in establishing acceptable business conduct, custodianship for positive organisational values and overseeing anti-corruption mechanisms in DAe.

FRAUD AND CORRUPTION AWARENESS

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

DETECTION OF FRAUD AND CORRUPTION

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



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

WHISTLE-BLOWING

Denel has a confidential hotline through which fraudulent and unethical behaviour may be reported. To report incidents of fraud and corruption employees and stakeholders call 0800 20 4880. The hotline is independently operated and all stakeholders are encouraged to make use of it. However, despite high awareness regarding the hotline and the whistle-blower's policy the number of hotline reports has been declining. It is comforting to note that the CCM process, diligent management assessments as well as the supply chain-related assessments conducted by the external auditor as required by the Auditor General, complement fraud detection. None of the eight cases of alleged unethical behaviour reported and assessed was found to be fraud-related.

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

LEGAL AND REGULATORY FRAMEWORK

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

Defense products involve controlled items which are subject to export regulations in terms of the National Conventional Arms Control Act (NCACA). The NCACA is at the centre of the compliance programme to ensure that development, manufacturing and servicing permits, as well as marketing, contracting, import and export permits are obtained as required. These permits include temporary permits and are issued at the discretion of, and

after following a stringent evaluation process by, the National Conventional Arms Control Committee (NCACC) established in terms of the Act of Parliament. We believe that the new regulations will facilitate compliance. Denel is updating its compliance programme to meet the criteria set out in the regulations. During the year under review, arms control compliance staff received awareness training on the new NCACA regulations.

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





SOCIAL RESPONSIBILITY

05

PEOPLE AND TRANSFORMATION

DAe has developed a Human Capital & Development strategy in line with the overall Denel SOC Ltd priorities outlined in the people and transformation pillar of the organisations' key strategic drivers. This strategy ensures that the company's business objectives, as outlined in the corporate plan, are achieved whilst ensuring that good progress is made on the sustainable transformation journey. Whilst strict control was maintained over headcount growth in light of the company's efforts to achieve its financial goals, additional people were employed to ensure on time and quality delivery on the new work packages that were acquired and to improve the current skills force.

Strong leadership and communication have been the cornerstones to ensure employees remain focused and are motivated to deliver excellent results. Learning and development has also been a key focus area, with specific emphasis on the continuation of the apprenticeship programme.

DAe has embarked upon numerous corporate social investment initiatives to improve its corporate identity. These programmes have been hugely successful due to extensive participation by employees.

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

The launch of DAe's values awards took place in the categories "performance, integrity, innovation, caring and accountability". These are the cornerstones of behaviour of all employees within DAe.

Priority areas for the year were:

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

EMPLOYEE WELL-BEING

EMPLOYEE WELL-BEING PROGRAMME

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

WELLNESS DAYS

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

MEDICAL AID AND RETIREMENT FUND

To ensure the wellness of our employees now and into retirement, we have compulsory membership to both the medical aid and retirement funds as part of the terms and conditions of employment. This ensures that employee's health care and retirement funding requirements are provided for.

POSITIVE EMPLOYEE RELATIONS

DAe's relationship with labour unions remains stable and positive. All consultations and negotiations are completed timeously and disputes, though minimal, are given the necessary attention to resolve them amicably. Recognition agreements are in place with three labour unions namely: Solidarity, NUMSA and UASA.

DEVELOPMENT

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 not always available in the market. DAe's objective is to develop all employees to their full potential and

encourages all employees to take learning and development as a personal responsibility. In this way the company will have a positive impact on the development of skills for the country. The skills development focus is very diverse and includes regulatory training (safety, quality, customer specifications etc.), various developmental training as identified during performance reviews and on-the-job training. The actual training interventions that took place were 117% of the planned interventions for the 2014/15 financial year. A total amount of R9.6m was spent on skills development and learning programmes for the current financial year.

LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME

The Henley Denel leadership and management development program was launched in January 2015 as an initiative to optimise the development of current leaders and to ensure the availability of a strong pool of successors for management and leadership positions. It is implemented as a pilot project with the intent to roll it out to all leaders and potential leaders if successful. The programme has four tiers covering junior, middle, senior and executive management levels within the organisation. The current programme is anticipated to be completed in December 2015. We strongly believe in continuous professional development to encourage life-long learning and to encourage a learning culture within the organisation.

EMPLOYEE STUDY BURSARIES

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

DAe is currently sponsoring employees with further studies e.g. various engineering studies, business, quality and production management. The expenditure in this financial year on employee bursaries was R300 000.

ARTISAN TRAINING

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

Currently 24 apprentices are sponsored in the various trades and will have a positive impact on the South African economy by providing highly sought-after artisans to the

industry. The investment for this financial year was almost R1.3 million. Adult artisan training programme assists operators to successfully complete a trade test and become qualified artisans. Currently 13 operators participate in the programme.

TRANSFORMATION

Various transformation initiatives have been implemented since 2007 to ensure that we achieve sustainable transformation in the business. Such initiatives have shown excellent results including DAe achieving a level 2 B-BBEE compliance score. The key focus areas of the transformation initiatives include

- Compliance with the B-BBEE Codes of Good Practice; and
- Climate Improvement Programmes.
-

MONITORING OF TRANSFORMATION PERFORMANCE

DAe believes in genuine business transformation that is sustainable and adds value to the employees, the company and the community at large. This is reflected in the following initiatives: External monitoring of transformation implementation occurs twice a year. A mid-year assessment is conducted by the group transformation manager and a final assessment is conducted by two independent auditors at year end.

- Compliance with the employment equity act occurs through annual submission of employment equity reports to the Department of Labour.
- DAe has an appointed transformation champion who manages the implementation of transformation within the Company.
- The Transformation committee is chaired by the CEO and meetings take place at least four times per annum. The role of the committee is to discuss targets, progress and strategies to meet the plans. The committee comprises of union representatives, entity transformation champions, HR practitioners and nominated employees to represent non-unionised employees. Line management responsible for the various elements of the B-BBEE codes also attends the committee meetings. This process of managing transformation ensures active involvement by all stakeholders.

B-BBEE

This is the fifth year that DAe has been evaluated by an external agent on B-BBEE. The company's target is to maintain an overall level 2 contributor status for 2014/15.

DAe has improved its overall B-BBEE scorecard from 49.14% in 2010 to an estimated 87% in 2015. This score makes DAe a 110% contributor and adds value to suppliers.

IMPROVING ORGANISATIONAL CLIMATE

The entity's climate improvement plans are evaluated for performance annually by an independent consulting firm. The overall score for this reporting period is 85%, an improvement on the previous year's 81%.

CORPORATE SOCIAL INVESTMENT

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

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

SCHOOLS OUTREACH PROGRAMME

This is conducted under the banner of the Denel group's youth development programme. DAe launched its pilot programme of the flagship youth development programme. This programme consists of Saturday and holiday school support, and assists learners with additional maths and science tutoring.

Over 100 learners from the Etwatwa High School in Wattville benefitted from the programme. It yielded good results, with learners on the programme performing exceptionally well.

DAe continues to spread the aerospace footprint across the country by hosting and participating in career awareness exhibitions across the country.

During the financial year, DAe hosted career days at the Zwartkops Air show, the 2014 Africa Aerospace and Defense Exhibition and the Rand Air Show. DAe also partnered and participated in other industry led exhibitions in the Western Cape and Limpopo provinces.

More than 1 000 learners from nearby communities attended the events where they had the opportunity to experience a showcase of the company's products and services, as well as a career talks by our engineers.

TAKE A GIRL CHILD TO WORK

DAe supports the value of exposing young female South Africans to the various career opportunities within the aerospace and aerostructures industries. During the 2014/15 financial year, DAe hosted 70 girl learners from the Etwatwa High School and Reiger Park Technical. These included children of DAe employees.



SAAF BENEVOLENT FUND

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

MANDELA DAY

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

During this financial year DAe, with the full participation of employees took some time off the busy production schedule to contribute to the Elethu Home for the disabled, based in Daveyton.

Denel employees and senior managers spent the day cleaning the home, weeding the garden for a vegetable patch and did some maintenance work around the home.

Elethu Home is adopted by DAe as part of its community development project. In line with the CSI terms of reference, the relationship is expected to be a fruitful one that will assist the home to realise a sustainable state.

SOURCING AND SUPPLY

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

- Developing sourcing and supply policies and procedures, through the implementation of multi-disciplinary procurement committees complying to formal delegation and in line with PFMA and PPPFA legislation.
- Committed to support and development of local suppliers, with a specific focus on emerging B-BBEE and SMME companies to contribute to national development and transformation goals.
- The sourcing and supply chain strategy to reduce the total cost of ownership, improve service delivery and overall improve customer satisfaction whilst complying with relevant legislation.
- Ensuring effective performance contracting with clear links to DAe's performance metrics and relevant KPI's to enhance internal as well as group-wide supply chain performance.
- Implementing supplier management methodologies and tools to enhance and monitor supply effectively.

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

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

The following aspects were addressed to develop these suppliers:

- DAe develops the market and secure orders from which local suppliers are contracted.
- Forecasting and capacity planning with on-time delivery monitoring.
- Improving quality standards, in terms of a first time pass rate.
- Improving the local supplier capability to perform in a global market including:
 - Assistance in industrialisation in terms of process development and tool design.
 - Supply of metallic raw material at no cost.
 - Provide financial training.
 - Quality audits and continuous improvement plans
 - Availability of the DAe special process and treatment facilities.
- The focus of preferential procurement is to increase expenditure on black-owned, black women-owned and black youth-owned businesses. The enterprise and supplier development action plan is to improve these businesses in order to participate not only in the South African market, but also in the global industry.

At DAe, we believe that supporting entrepreneurs and small/medium businesses, plays a major role in building and ensuring a sustainable economy for our country

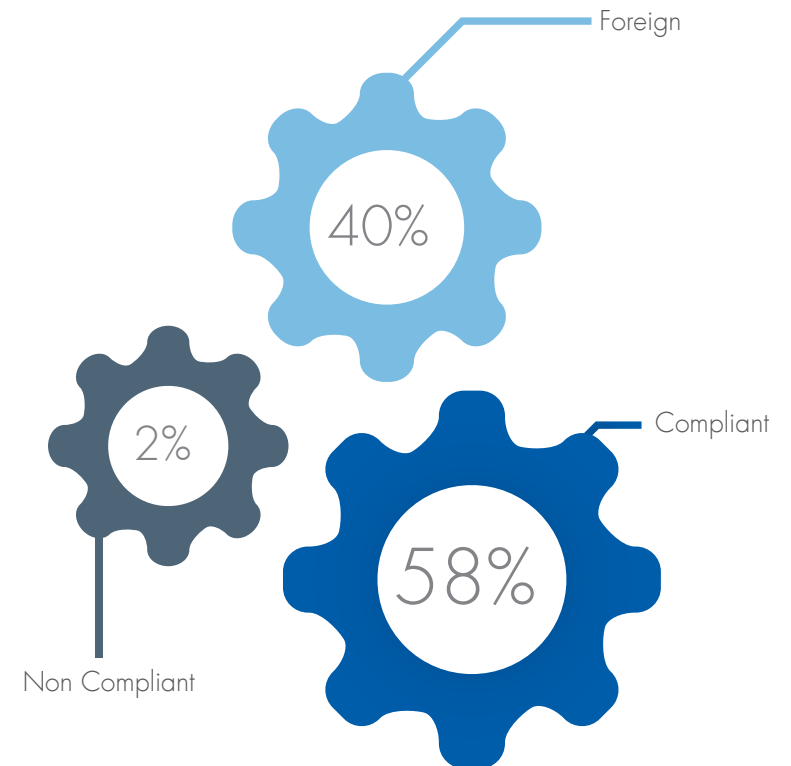
DAe's focus of preferential procurement is to increase expenditure on black-owned, black women-owned and black youth-owned businesses. Our enterprise and supplier development action plan is to improve black-owned businesses to participate not only in the South African market, but also in the global industry.

DAe as a tier 1 industry operator prides itself in its role as an advanced manufacturing catalyst by supporting and training local suppliers to meet international standards in an economically sustainable manner.

Our strategy entails the identification and development of small black- and youth-owned companies already operating in the high tech or engineering spheres. Preference is given to companies that offer the kind of services that are core to the DAe business and the aerospace sector. Supplier development takes various forms including transfer of relevant skills, assisting companies to acquire relevant equipment, and facilitating collaboration with organisations that develop small black companies. DAe's strategy to promote enterprise development was taken a step further with the donation of two cleaning machines to an emerging cleaning company, Stevrob Investments CC.

Total Spend YTD 01 April 2014 - 31 March 2015	Percentage
Black Owned Spend - 50% and more	44%
Black Owned Spend All	75%
Total Spend YTD 01 April 2014 - 31 March 2015	Percentage
Black Woman Owned Spend - 30% and more	8%
Black Woman Owned Spend All	54%
Total Spend YTD 01 April 2014 - 31 March 2015	Percentage
Black Youth Owned Spend - 50% and more	2%
Black Youth Owned Spend	2%

TOTAL SPEND YTD 01 APRIL 2014 - 31 MARCH 2015 VALUE



OCCUPATIONAL HEALTH AND SAFETY

OVERVIEW

DAe subscribes to the principles of corporate citizenship which observes human rights including the right to a safe work environment. These principles are reflected in Denel's values that acknowledge that its employees are the drivers of its mission to advance the vision and expectations of the stakeholders. Therefore, a comprehensive approach to occupational health and safety that helps preserve the well-being of employees is essential for the company's success.

Denel's objective is to ensure a safe work environment through engineering measures to eliminate hazards, implement safe work procedures, provide protective clothing, monitor occupational diseases and create a culture of safety consciousness based on continuous safety risk assessments. Denel Aerostructures is in the process of implementing management system OHSAS 18001, certified by the SABS this year.

Taking into account the hazardous nature of the work environment, Denel has adopted more integrated and risk-based safety and security measures to minimise safety risk exposures to employees as far as practicable.

OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Responsibility for a safe work environment rests with the CEO of DAe. Through legal appointments and the communication of their responsibilities a culture of accountability for work place safety is instilled at all levels of the organisation. Furthermore, safety performance is measured against a group lost time injury frequency rate (LTIFR) target of less than one and DAe achieved 0.87 during 2014/15. It is comforting to note that no fatal accidents were experienced during 2014/15.

A number of programmes and procedures have contributed significantly to the safety record of the organisation. This includes the identification and conducting of safety job analysis and providing written safe work instructions for high risk jobs and effective supervision to ensure compliance. Visible signage ensured employees are continuously aware of hazards and also served as a reminder for PPE requirements. Employees in high-risk occupations, such as the handling of hazardous chemicals, receive refresher courses, are provided with the appropriate personal protective clothing (PPE) and material safety data (MSD) sheets, and are stringently supervised for safety reasons. Safety Health and Environmental Committees as well as general safety awareness are critical ingredients of DAe's safety programme.

OCCUPATIONAL HYGIENE SURVEYS

DAe conducts occupational hygiene surveys to identify environmental stressors including illumination, noise, ventilation, hazardous chemical substances (HCS), as well as ergonomics. The surveys were done to mitigate exposure and ensure compliance with applicable legislation. During the year illumination, noise, ventilation, HCS, tests as well as ergonomics were conducted and corrective measures taken where necessary.

OCCUPATIONAL MEDICINE

Pre-employment, periodic and exit medical examinations are conducted at the occupation health centre of the Kempton Park Campus. This centre, managed by Denel Industrial Properties is staffed by qualified occupational medical practitioners.

Pre-employment, periodic, and exit medical examinations and medical treatment procedures were performed on 194 employees. See details below.



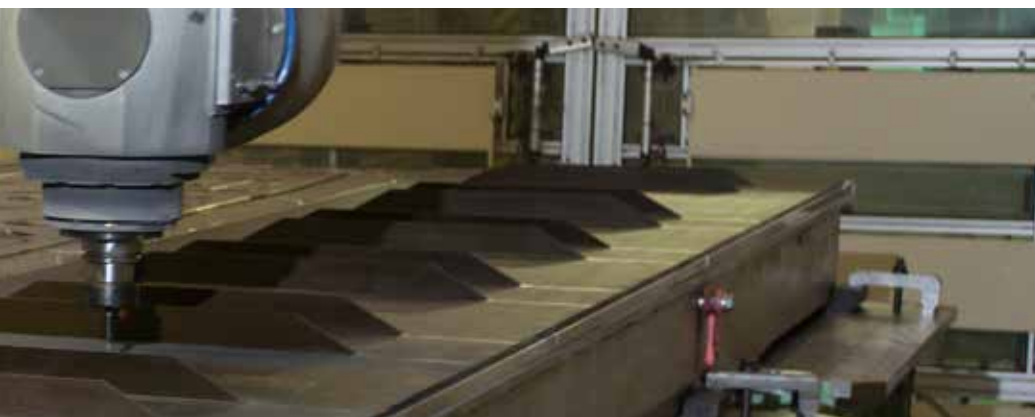
PROCEDURE	2014/15	2013/14
Pre-exit medicals	14	24
Periodic medical	14	26
Pre-employment	17	60
Fitness tests	41	
Medical Treatment	6	
Lost Time Injury	4	
Asthma	1	
Diabetes	17	
Epilepsy	1	
Hypertension	78	
HIV	1	

OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS

Training of employees in specific occupations to promote safety awareness contributed to the good safety record during the year. Specific attention was focused on areas such as incident investigations, safety risk assessment, high-risk occupations such as hazardous chemical substances handling and fire-fighting to promote safe work practices and improve the general responsibilities of safety representatives and supervisors.

There has also been a focus on the safety of subcontractors. The numbers of employees that received safety training, other than safety awareness are 322 of the complement of 430. See details below

TRAINING TYPE	DAe 2014/15
SHE Induction	72
HAZCHEM	9
Spill Kit	46
SHE Reps	8
HIRA	23
First Aid	9
Fire Fighter	21
Crane operator	20
Fork truck operator	12
SHE Awareness	430
Incident Invest.	21
Sling inspection	13
Eye Wash	36
Stacking	32



ENVIRONMENTAL RESPONSIBILITY

OVERVIEW

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

ENVIRONMENTAL POLICY AND MANAGEMENT SYSTEM

DAe complies with all applicable laws and legislation, including the Ekurhuleni Municipality by-laws, National Environmental Management Act and the OHS Act.

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

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

EMPLOYEE TRAINING AND AWARENESS

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

WASTE PRACTICES AND RECYCLING

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

ENVIRONMENTAL MANAGEMENT SYSTEMS AND ISO14000 AND OHSAS 18001 CERTIFICATES

- DAe has aligned its procedure with the international standards to ensure compliance to customer requirements.
- DAe has implemented ISO14000 and OHSAS 18001 was audited by SABS who will be issuing the certificates shortly.



WEIGHT OF WASTE, BY TYPE AND DISPOSAL METHOD

DESCRIPTION OF WASTE	DISPOSED OR RECYCLED	HAZARDOUS OR GENERAL WASTE	WEIGHT OR VOLUME OF WASTE		METHOD OF DISPOSAL OR RECYCLING	CERTIFICATE OF SAFE DISPOSAL OBTAINED
			Current Year	Prior Year		
Aluminium	Recycled	General	331 tons	253 tons	Sold to recycler	Not applicable
Anion resin / Cyanide	Disposed	Hazardous	39 cubic meters	49 cubic meters	Enviroserve	Yes
Effluent Water	Disposed	General	49 000 kilo litres	41 000 kilo litres	Permit to dispose to metro sewer	Monthly Metro laboratory reports
Caustic and Chromic Acid	Disposed	Hazardous	46 cubic meters	41 cubic meters	Enviroserve	Yes
Empty paint tins	Disposed	Hazardous	7 cubic meters	11 cubic meters	Enviroserve	Yes
Effluent Sludge	Disposed	Hazardous	15 cubic meters	9 cubic meters	Enviroserve	Yes

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

ENERGY AND WATER USAGE

DAe is participating in the Denel Group energy saving project. Electricity consumption was reduced by 20% from the 2012/2013 financial year, from 12 200 000 KWH to 9 500 000 KWH pa for the past two years. Water usage is managed by Denel Industrial Properties but effluent quality is managed by DAe.

ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES

DAe's products are in accordance with customer requirements, and comply with all applicable legislation. In addition products comply with European Regulations (REACH).

As part of the operating procedure all hazardous substances are contained in environmentally safe storage and handling facilities and reviewed on a weekly basis.

WATER EFFLUENT PROCESSING PLANT

DAe is operating an environmentally sound waste water recycling plant to ensure the re-utilisation of around 75% of its water requirements for its advanced production processes.

The plant is fully operational and is delivering high quality demineralised water (5 – 20 $\mu\text{S}/\text{cm}$) at 25 – 30 kl/day for the company. The water recycling plant also cleans water for the remainder of the Denel Kempton Park campus and in total discharges 180 kl/day of treated water to the Ekurhuleni sewage system complying with the National Water Act, 1998, Wastewater Discharge Standards. DAe uses around 10 kl/day from Rand Water as top-up into the plant, in addition to feeds received by other tenants on the campus. Hazardous heavy metals such as chrome and cadmium are neutralised before being removed through sedimentation and filter presses. This produces caked residues of around one skip per annum which are disposed of through accredited service providers to national waste management sites. DAe invests continuously in the maintenance and upgrade of its water treatment facilities to ensure full compliance with all national standards as well as the stringent requirements of its international customer base.

MACHINE SHOP COOLING FLUID RECYCLING:

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



ANNUAL FINANCIAL STATEMENTS

06



REPORT OF THE AUDIT & RISK COMMITTEE

The Audit and Risk committee is independent and consists of three independent, non-executive directors. The committee meets at least two times per year as per the terms of reference. Attendance of meetings, date of appointments, and qualifications of the members are included in the annual report.

TERMS OF REFERENCE

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

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

- The effectiveness of internal controls;
- The risk areas of the entity's operations covered in the scope of internal and external audits;
- The adequacy, reliability and accuracy of financial information provided by management;
- Accounting and audit concerns identified through internal and external audits;
- The entity's compliance with legal and regulatory provisions;
- The effectiveness of the internal audit function;
- The activities of the internal audit function, including its annual audit plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations;
- The independence and objectivity of the external auditors;
- The governance of IT and related controls;
- Business misconduct and fraud prevention processes and measures;
- The governance of risk;
- The assurance provided as contained in the combined assurance model; and
- Other matters referred to it by the board or management.

EFFECTIVENESS OF INTERNAL CONTROLS

The committee is of the opinion that the internal accounting controls are adequate to ensure that 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.

Nothing significant has come to the attention of the committee to indicate any material breakdown in the functioning of these controls, procedures and systems during the year under review. The committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

EXTERNAL AUDITORS' APPOINTMENTS AND INDEPENDENCE

SizweNtsalubaGobodo supported by Kwinana and Associates, are the independent external auditors. The committee has satisfied itself that the external auditors were independent of the group, as set out in the Companies Act, which includes consideration of potential conflicts of interest as prescribed by the Public Audit Act no. 25 of 2004 (PAA).

The external auditors provided assurance that internal governance processes within their audit firms, support and demonstrate their independence. The committee, in consultation with executive management, agreed to the engagement letter terms, audit plan and budgeted audit fees for the 2014/15 year.

INTERNAL AUDIT FUNCTION

The committee has overseen an internal audit process performed according to a risk-based audit plan, taking into account the effectiveness of risk management and internal controls. These evaluations were the main input considered by the board in reporting on the effectiveness of internal controls.

GOVERNANCE OF RISK

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

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

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

ANNUAL FINANCIAL STATEMENTS

The committee has evaluated the annual financial statements of Denel Aerostructures SOC Ltd for the year ended 31 March 2015, and based on the information provided, considers that they comply in all material respects with requirements of the South African Companies Act, PFMA and International Financial Reporting Standards (IFRS). Furthermore, the audit and risk committee concurs that the adoption of the going concern assumption in preparation of the annual financial statements is appropriate.

At its meeting on 1 July 2015, the committee recommended the adoption of the annual financial statement by the board of directors.



Mr Abdul Carim
Chairman of the audit and risk committee

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDER OF DENEL AEROSTRUCTURES SOC LTD FOR THE YEAR ENDED 31 MARCH 2015

INTRODUCTION

We have audited the annual financial statements of Denel Aerostructures SOC Limited set out on pages 98 to 156, which comprise the statement of financial position as at 31 March 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of annual financial statements in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa and for such internal control as the accounting authority determines is necessary to enable the preparation of the annual financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual 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 annual financial statements.

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



OPINION

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Denel Aerostructures SOC Limited as at 31 March 2015 and their financial performance and cash flows for the year ended, in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

OTHER MATTER

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2015, we have read the Directors' report, report of the Audit and Risk Committee, Company Secretary's Certificate and the annual report for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of Denel Aerostructures SOC Limited for the year ended 31 March 2015, on pages 16 to 17.

- Strategic economic role
- Business Sustainability as considered sustainable from Denel Aerostructures SOC Limited perspective
- Socio – Economic Objectives

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time-bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

USEFULNESS AND RELIABILITY OF REPORTED PERFORMANCE INFORMATION

We did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Strategic economic role
- Business Sustainability as considered sustainable from Denel Aerostructures SOC Limited perspective
- Socio – Economic Objectives

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual report on pages 16 to 17 for information on the achievement of the planned targets of the financial year.

COMPLIANCE WITH LEGISLATION

We performed procedures to obtain evidence that Denel Aerostructures SOC Limited had complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004).

INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation. We did not identify any significant deficiencies in internal control.

SizweNtsalubaGobodo Inc.

SizweNtsalubaGobodo Inc.
Director: Phumeza Nhantsi
Registered Auditor
Chartered Accountant (SA)
20 Morris Street East
Woodmead
2191
1 July 2015

**Sizwe
Ntsaluba
Gobodo** 
OPPORTUNITY. EXCEEDED.



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 2015.

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

The directors are satisfied that at the time of approving the annual financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this conclusion, the directors considered the cash position at 31 March 2015, the cash requirements for at least twelve months from that date and the available financial guarantee from Denel SOC Ltd. The going concern is discussed in more detail on page 96 of this report.

The external auditors are responsible for independently auditing and reporting on the annual financial statements. The report of the independent auditors appears in the Annual Report. 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 2015. The annual financial statements for the year ended 31 March 2015, set out on page 98 to 156 have been prepared under the supervision of the Chief Financial Officer, Ms H Shangase (ACCA) and were approved by the Board of Directors on 1 July 2015 in terms of the Companies Act and the Public Finance Management Act and is signed on their behalf by:



Fikile Mhlontlo
Acting Chairman of the Board



Theo Kleynhans
Chief Executive Officer





CERTIFICATE BY THE COMPANY SECRETARY

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

A handwritten signature in black ink, appearing to read 'V Ravjee', written over a white background.

Ms V Ravjee
Company Secretary



DIRECTORS' REPORT

NATURE OF BUSINESS

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

FINANCIAL REVIEW

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

	2015 Rm	2014 Rm
Revenue	468	438
Gross profit / (loss)	32	-30
Other income	3	23
Operating expenditure	-54	-37
Profit/ (loss) before interest and tax	-19	-44
Net finance costs	6	11
Net loss	-13	-33

The company is showing a significant improvement in financial performance with a reduced loss of R13m compared to the prior year loss of R33m. The results of the year under review can be attributed to an improvement in revenue compared to prior year, as well as continued cost saving initiatives. For further information refer to the financial results on page 98 to 156

DAe remains in a turnaround phase and due to the historic structural misalignment between its revenue and cost bases, however DAe has achieved its corporate plan and exceeded financial performance expectations for four consecutive financial years.

SIGNIFICANT CONTRACTS

AIRBUS A400M

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

DAe embarked on an A400M ramp-up schedule with the production of 16 ship sets in 2013/14 and 24 in 2014/15. Production thus increased by 50% from the previous financial year. To date, the year-on-year ramp-up targets were met successfully. Since contract signature in early 2005, DAe has designed and manufactured 50 WFF and 56 TS ship sets. Airbus has delivered eight aircrafts in 2014 – four to France, two to Turkey and one each to Germany and to the UK.

The transfer of the Ribs, Spars and Sword (RSS) work package from Airbus Stade to DAe continued in 2014/15. The RSS contract involves the manufacture and supply of composite parts for the vertical tail plane of the A400M aircraft. Steady progress of the transfer of the RSS work package, from Airbus Germany to DAe was made and 19 full RSS ship set was delivered in 2014/15.

Along with the Industrialisation and production ramp-up of the RSS work package, DAe was awarded additional A400M work packages. The manufacturing work relates to the aircraft's cargo-hold system and consists of the ISO-Locks and Central Guide Vertical Restraint (CGVR) system work packages. The total programme value of the five work packages amounts to R3.6bn and revenue of R407m was recognised during the year.





FUNDING

During the year under review the net cash outflow amounted to R94m which was R35m better than forecasted. The positive balance in the loan account at 31 March 2015 was R229m and should be sufficient to carry the company until it becomes cash positive in 2015/16. DAe managed cash and working capital tightly, ensuring minimal exposure to liquidity risk.

REVERSAL OF IMPAIRMENT OF ASSETS

Impairment assessments were performed on assets that demonstrated possible impairment indicators. The value in respect of certain machines that were previously impaired was reinstated. The net value included in the annual financial statements is R28m (2013/14: R42m).

GOING CONCERN

DAe was able to meet and exceed its turnaround targets during the previous four financial years and the Board is confident that it will also be successful in the future financial years. The net equity position at year-end is healthy with a balance of R316m compared to the previous financial year of R329m. The cash balance was R229m at year-end and was deemed sufficient to fund the working capital requirements of DAe for the turnaround plan before break even in 2015/16.

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

Taking the above factors into consideration, the Board of Directors is comfortable to prepare the annual financial statements for the financial year ending 31 March 2015 on the going concern basis.

In assessing the appropriateness of the going concern assumption, all available information, which is at least but not limited to twelve months from the end of the reporting period, is taken into account.

INTERNAL CONTROLS

The group has implemented a system of internal control which is reviewed by the A&R committee on a quarterly basis. The board is satisfied that the system of internal control is effective.



COMPLIANCE WITH LAWS AND REGULATIONS

DAe has implemented a compliance process to meet applicable legal and regulatory requirements. The process entails implementing systems to ensure compliance with existing and emerging legislation. It further monitors the system, detects and addresses deficiencies that may lead to non-compliance. The board is satisfied that the group has in all material respects complied with the provisions of the PFMA, the Companies Act and other applicable legislation.

SHARE CAPITAL

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

DIVIDENDS

No dividends were declared or paid during the 2014/15 financial year (2013/14: R nil).

COMPLIANCE WITH ACCOUNTING STANDARDS

The annual financial statements for the year ending 31 March 2015 comply with International Financial Reporting Standards (IFRS).

AUDITORS

The external auditors for the year under review, SizweNtsalubaGobodo Inc. were appointed by Denel SOC Ltd. The statutory auditors for the forthcoming year will be confirmed at the Annual General Meeting to be held on 6 October 2015.

DIRECTORS AND SECRETARY

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

Denel Aerostructures SOC Ltd
P O Box 11
Kempton Park
1620

DENEL AEROSTRUCTURES (SOC) LTD STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2015

	NOTES	2015 R	2014 R
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	225,260,004	201,701,682
CURRENT ASSETS			
Inventories	12	200,353,704	118,773,363
Trade and other receivables	13	118,886,614	136,531,379
Other financial assets	14	-	159,846
Cash and short-term deposits	15	228,922,264	322,531,215
NON-CURRENT ASSETS HELD FOR SALE	10	-	5,493
TOTAL ASSETS		773,422,586	779,702,978



DENEL AEROSTRUCTURES (SOC) LTD STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2015

	NOTES	2015 R	2014 R
EQUITY AND LIABILITIES			
EQUITY			
ISSUED CAPITAL			
Ordinary Shares	16.1	600	600
Share premium	16.2	1,689,102,979	1,689,102,979
Accumulated profit/(loss)		(1,372,676,441)	(1,359,919,340)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		316,427,138	329,184,239
Non-controlling interest		-	-
TOTAL EQUITY		316,427,138	329,184,239
NON-CURRENT LIABILITIES			
Loans and borrowings	17	336,236,949	336,236,949
Provisions	19.1	98,721	1,507,761
Deferred tax liabilities	11	-	-
CURRENT LIABILITIES		120,659,778	112,774,029
Trade and other payables	20	86,676,925	82,098,931
Advance payments received	18	-	1,119,611
Provisions	19.2	33,982,853	29,555,487
TOTAL LIABILITIES		456,995,448	450,518,739
TOTAL EQUITY AND LIABILITIES		773,422,586	779,702,978

DENEL AEROSTRUCTURES (SOC) LTD STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

	NOTES	2015 R	2014 R
CONTINUING OPERATIONS			
Revenue	3	468,484,818	438,089,362
Cost of sales	4	(436,630,481)	(468,465,283)
GROSS PROFIT		31,854,337	(30,375,921)
Other income	5	2,686,869	23,133,129
Other operating expenses	4	(53,588,798)	(36,670,636)
OPERATING PROFIT/(LOSS)		(19,047,592)	(43,913,428)
Net finance income/(costs)		6,290,491	10,970,969
Finance costs	7.1	(6,699,617)	(5,894,012)
Finance income	7.2	12,990,108	16,864,981
Profit/(Loss) before tax		(12,757,101)	(32,942,459)
Income tax expense	8	-	-
PROFIT/(LOSS) FOR THE YEAR		(12,757,101)	(32,942,459)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(12,757,101)	(32,942,459)



DENEL AEROSTRUCTURES (SOC) LTD STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

NOTES	2015 R	2014 R
Profit/(Loss) for the year	(12,757,101)	(32,942,459)
OTHER COMPREHENSIVE INCOME	-	-
Revaluation of property, plant and equipment on transfer to investment properties	-	-
Net gain on revaluation of property, plant and equipment	-	-
Income tax effect	-	-
Net gain on hedges	-	-
Net gain on hedge instruments	-	-
Income tax effect	-	-
Pension fund surplus	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	(12,757,101)	(32,942,459)
ATTRIBUTABLE TO:		
Equity holders of the parent	(12,757,101)	(32,942,459)
Non-controlling interest	-	-
	(12,757,101)	(32,942,459)



DENEL AEROSTRUCTURES (SOC) LTD STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	NOTES	ISSUED CAPITAL R	SHARE PREMIUM R	ACCUMULATED PROFIT/(LOSS) R	TOTAL EQUITY R
Balance at 1 April 2013		600	1,689,102,979	(1,326,976,880)	362,126,699
Capital reduction		-	-	-	-
Total comprehensive income		-	-	(32,942,459)	(32,942,459)
Profit/(Loss) for the year		-	-	(32,942,459)	(32,942,459)
Other comprehensive income		-	-	-	-
Balance at 1 April 2014	16	600	1,689,102,979	(1,359,919,340)	329,184,239
Total comprehensive income		-	-	(12,757,101)	(12,757,101)
Profit/(Loss) for the year		-	-	(12,757,101)	(12,757,101)
Other comprehensive income		-	-	-	-
BALANCE AS AT 31 MARCH 2015		600	1,689,102,979	(1,372,676,441)	316,427,138



DENEL AEROSTRUCTURES (SOC) LTD CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

	NOTES	2015 R	2014 R
CASH FLOW STATEMENT			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from clients		488,287,969	445,934,481
Cash paid to suppliers and employees		(573,192,395)	(524,549,970)
Net cash from operations	22	(84,904,426)	(78,615,489)
Interest received		12,990,108	16,864,980
Interest paid		(6,699,617)	(5,894,012)
CASH FLOW FROM INVESTMENT ACTIVITIES			
Property Plant & Equipment	9	(14,995,015)	(61,813,139)
Additions and replacements		(16,777,018)	(62,009,852)
Proceeds on disposal		1,782,003	196,713
CASH FLOW BEFORE FINANCING ACTIVITIES			
CASH FLOW FROM FINANCING ACTIVITIES			
NET INCREASE/(DECREASE) IN CASH			
CASH AND CASH EQUIVALENTS:			
AT BEGINNING OF YEAR		322,531,215	451,988,875
AT END OF YEAR	15	228,922,265	322,531,215

ACCOUNTING POLICY

1. CORPORATE INFORMATION

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

2. ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PREPARATION

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

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

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

Judgements made by management in the application of IFRS that have a significant effect on the annual financial statements and estimates with a significant risk of material adjustment in the following year are discussed in note 2.4.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

2.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

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

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

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

The company 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 contracts where rapidly changing technology may result in a re-engineering requirement on these systems.

Management made significant judgements on the following contracts/ programmes (for more detailed discussion on these contracts/ programmes 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.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Impairment assessments for property, plant and equipment are based on the fair value less cost to sell using the estimated fair value of the assets less the estimated cost of disposal. Impairment assessments were performed on the assets that demonstrated possible impairment indicators, including available capacity against the requirement.



REASSESSMENT OF USEFUL LIVES

The company undertook an extensive reassessment of the useful lives of assets. This was in compliance with IAS 16 which requires that the useful lives of assets be re-assessed annually. Some components have to be replaced more frequently while other components last longer and there are quite a number of machines that have been in use for 30 – 50 years which have been depreciated to a zero value due to the incorrect estimation of the useful life of the specific asset.

The result of the reassessment was as follows:

- The foundations and structures that are fixed were assessed to have a useful life of at least 40 years, and;
- The moving parts and electronic components' useful lives were shortened to between 3 and 10 years.

The effect on depreciation as a result of the reassessment of useful lives for the current financial year was R2,4 million.

PRODUCT WARRANTIES

Anticipated warranty cost is based on the technical risk estimations in terms of single opportunity production contracts, and historical data in terms of repetitive production type contracts. The estimation is based on past experience (proven results) and varies per type of contract. This is expressed, as a percentage of cost of sales, ranging from 0% to 10%, and is determined at the quotation phase and is reviewed on a regular basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.5.1 REVENUE RECOGNITION

SALE OF GOODS AND SERVICES

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



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:

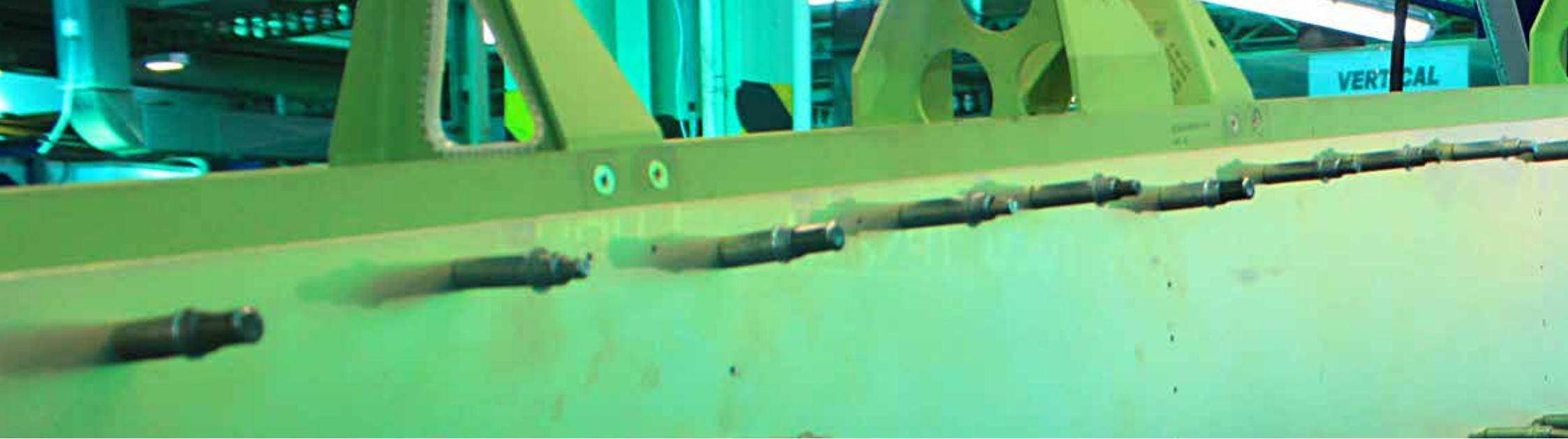
- For specific identified development contracts of sub-assemblies where there is a significant amount of uncertainty, the stage of completion is based on the extent of achievement of predetermined milestones within the contract. These significant uncertainties are only satisfied once client certification takes place.
- On all other contracts, the stage of completion is determined with reference to costs incurred to date as a percentage of total estimated costs.
- A group of contracts, whether with a single customer or with several customers, are treated as a single construction contract when the contracts are so closely inter-related such that they are, in effect, part of a single project with an overall profit margin.

CONTRACT REVENUE COMPRISES:

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





FINANCE INCOME AND COST

Finance income comprises interest income on funds invested. Interest income is recognised using the effective interest rate method when it is determined that such income will accrue to the company.

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

OTHER INCOME

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

2.5.2 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a component of the company's business that has either been disposed or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with

a view to its subsequent disposal. Assets are classified as non-current assets held for sale if the carrying amount would be recovered principally through sale and not continuing use. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to its subsequent disposal.

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

2.5.3 PROVISIONS

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of



the time value of money and where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit or loss as finance cost as it occurs.

2.5.4 TAXES

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

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

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

tax rates that are expected to apply for the year when the asset is realised or the liability is settled based on tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will realise. Deferred tax assets and liabilities are recognised on a net basis for each tax entity. Revenue, expenses and assets are recognised net of the amount of value added tax (VAT) except:

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

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

2.5.5 FINANCIAL INSTRUMENTS

The company initially recognises financial assets and liabilities on the trade date at which the company becomes a party to the contractual provisions of the instrument.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise loans receivable, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value, plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

FINANCIAL ASSETS

The company has the following classes: financial assets at fair value through profit or loss, as well as loans and receivables (including insurance receivables and cash and cash equivalent). The company currently does not hold any held-to-maturity or available-for-sale assets.

LOANS RECEIVABLE

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

TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortised cost less impairment losses. Impairment losses are recognised in profit or loss and are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective rate of receivables.

Once an impairment loss has been recognised, recovery proceedings are continued. Impairment losses are decreased in subsequent periods only if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised.



CASH AND CASH EQUIVALENTS

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

The interest bearing loan account of the holding company is used as a banking facility and the holding company invests the surplus funds on behalf of the company, therefore it is classified as cash and cash equivalents. These are initially and subsequently measured at fair value.

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.

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 group of similar financial assets) is derecognised where:
- The contractual rights to receive cash flows from the asset have expired; or
- The company retains the contractual right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The company has transferred its contractual rights to receive cash flows from the asset and either:
 - 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 the company could be required to repay.

FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

2.5.6 FOREIGN CURRENCIES

RECORDING OF FOREIGN TRANSACTIONS

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

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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



2.5.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially measured at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. Subsequent to the initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment.

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

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

DEPRECIATION

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

The estimated useful lives are as follows:

- Plant three to 40 years
- Machinery and equipment three to 60 years
- Vehicles five years
- Office furniture and accessories three to 20 years
- Computer equipment three 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:

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

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

SPARE PARTS

Major spare parts and servicing equipment qualify as property, plant and equipment when the company expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.5.8 LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the company are classified as finance leases.

Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is expensed over the lease period, and the capital repayment, which reduces the liability to the lessor.

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

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



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

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

2.5.9 RESEARCH AND DEVELOPMENT COSTS

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

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

2.5.10 IMPAIRMENT

FINANCIAL ASSETS

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

Objective evidence that financial assets are impaired includes:

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

- the disappearance of an active market for a security
 - observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets
- An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

All impairment losses are recognised in profit or loss.

NON-FINANCIAL ASSETS

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

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

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

REVERSALS OF IMPAIRMENT

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

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

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

2.5.11 INVENTORIES

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

THE FOLLOWING SPECIFIC METHODS ARE APPLIED IN DETERMINING COST PRICE:

Raw materials and bought-out components. These are valued at direct cost of purchase plus the other costs incurred to bring it to its present location and condition.

WORK-IN-PROGRESS, FINISHED PRODUCTS AND CONTRACTS-IN-PROGRESS

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

CONSUMABLE INVENTORIES

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

2.5.12 BORROWING COSTS

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

Borrowing costs incurred on qualifying assets under construction are capitalised up to the date the assets are substantially complete. Capitalisation is suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense when incurred.

2.5.13 ADVANCE PAYMENTS RECEIVED FROM SALES CONTRACTS

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

2.5.14 EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The company operates a defined contribution plan of which the assets are held in separate trustee administered funds. The plan is funded by payments from employees and by the relevant business entities based on the recommendations of independent qualified actuaries.

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

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

At the date of authorisation of the annual financial statements for the year ended 31 March 2015, the following standards and interpretations were in issue but not yet effective and not early applied by the company:



STANDARDS	DETAILS OF AMENDMENT Standards that have been issued with their respective effective dates	ANNUAL PERIODS BEGINNING ON OR AFTER
IAS 32: Financial Instruments Presentation (Amendment)	The amendment gives more clarity on disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.	Applies retrospectively for annual periods beginning on or after 1 January 2014. Early adoption is permitted.
IFRS 10, IFRS 12 and IAS 27 (Amendments)	These amendments define investment entity and introduce exceptions to consolidating particular subsidiaries for investment entities. They require investment entities to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments: in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.	Applies retrospectively for annual periods beginning on or after 1 January 2014. Early adoption is permitted.
IAS 39: Financial Instruments Recognition and Measurement- Novation of derivatives	The objective of the amendment is to provide an exception to the requirement for the discontinuation of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations.	Applies retrospectively for annual periods beginning on or after 1 January 2014. Early adoption is permitted.
IAS 36: Impairment of Assets (Amendment)	The objective of the amendment is to amend the disclosure requirements in IAS 36 Impairment of Assets with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 Fair Value Measurement in May 2011.	Applies retrospectively for annual periods beginning on or after 1 January 2014. Early adoption is permitted.
IFRS 3 Business Combination: (Amendment)	The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRS 3: Business Combinations (Amendment)	The objective of this amendment is to clarify that paragraph 2(a) of IFRS 3 Business Combinations: excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRS 8 Operating Segments: (Amendment)	The objective of this amendment is to ensure that a reconciliation of the total of the reportable segments' assets to the entity's assets are disclosed, if that amount is regularly provided to the chief operating decision maker.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.

STANDARDS	DETAILS OF AMENDMENT Standards that have been issued with their respective effective dates	ANNUAL PERIODS BEGINNING ON OR AFTER
IFRS 2 Share-based Payment: (Amendment)	The objective of this amendment is to clarify the definition of a vesting condition.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRS 13 Fair Value Measurement: (Amendment)	The objective of this amendment is to ensure that paragraphs relating to IFRS 9 and IAS 39 containing guidance related to the measurement of short-term receivables and payables with no stated interest rate at invoice amounts are adjusted.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IAS 16 Property, Plant and Equipment: (Amendment)	The objective of this amendment is to clarify the requirements for the revaluation method in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to address concerns about the calculation of the accumulated depreciation or amortization at the date of the revaluation.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IAS 24 Related Party Disclosures: (Amendment)	The amendment is that an entity providing KMP services to the reporting entity should be disclosed as a related party of the reporting entity.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IAS 38 Intangible Assets (Amendment)	The amendment was in line with the proportionate restatement of accumulated amortisation under the revaluation method.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRS 1: Firsttime adoption of International Financial Reporting Standards (Amendment)	The objective of this amendment is to clarify the meaning of each IFRS effective at the end of an entity's first IFRS reporting period as used in paragraph 7 of IFRS 1 Firsttime Adoption of IFRSs.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRS 13: Fair Value Measurement (Amendment)	The objective of this amendment is to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IAS 40 Investment Property (Amendment)	The objective of this amendment is to clarify that judgment is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.

STANDARDS	DETAILS OF AMENDMENT Standards that have been issued with their respective effective dates	ANNUAL PERIODS BEGINNING ON OR AFTER
IAS 19: Employee Benefits (Amendment)	The objective of this project is to provide additional guidance to IAS 19: Employee Benefits on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan.	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted.
IFRIC 21: Levies (New)	The International Accounting Standards Board has today issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments. The Interpretation had been developed by the IFRS Interpretations Committee ('the Interpretations Committee'), the interpretative body of the IASB	Applies retrospectively for annual periods beginning on or after 1 July 2014. Early adoption is permitted
IFRS 9 Financial Instruments	This is a new standard that is meant to replace IAS 39 Financial Instruments: Recognition and Measurement, when it becomes effective.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018
IFRS 15: Revenue from Contracts with Customers	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. 	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017
Investment Entities: Applying the Consolidated Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	The issue is to clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of IFRS 10, is available to entities affected by Investment Entities amendments.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
Disclosure Initiative (Amendments to IAS 1)	The amendments relate to the following: <ul style="list-style-type: none"> • materiality; • order of the notes; • subtotals; • accounting policies; and • disaggregation. 	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016

STANDARDS	DETAILS OF AMENDMENT Standards that have been issued with their respective effective dates	ANNUAL PERIODS BEGINNING ON OR AFTER
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	The objective was to add new guidance to IFRS 11 Joint Arrangements on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The IASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in IFRS 3 Business Combinations, and other IFRSs, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	This project is a limited-scope amendment to IAS 16 and IAS 38 to clarify the use of a revenue-based depreciation or amortisation method.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	This project is a limited-scope improvement to IAS 41 to address bearer biological assets.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	The objective of this narrow-scope project is to restore the option to use the equity method of accounting in separate financial statements.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	The objective of the project is to address the acknowledged inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 (2011) restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary.	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016

STANDARDS	DETAILS OF AMENDMENT Standards that have been issued with their respective effective dates	ANNUAL PERIODS BEGINNING ON OR AFTER
<p>ANNUAL IMPROVEMENTS 2012-2014</p> <p>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:</p> <ul style="list-style-type: none"> • Changes in methods of disposal <p>IFRS 7 Financial Instruments: Disclosures:</p> <ul style="list-style-type: none"> • Servicing contracts • Applicability of the amendments to IFRS 7 to condensed interim financial statements <p>IAS 19 Employee Benefits :</p> <ul style="list-style-type: none"> • Discount rate: regional market issue <p>IAS 34 Interim Financial Reporting:</p> <ul style="list-style-type: none"> • Disclosure of information 'elsewhere in the interim financial report' 		<p>Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016</p>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2015	2014
	R	R
3 REVENUE		
INCOME COMPRISES	468,484,818	438,089,362
Revenue from the long-term contract	358,355,722	326,880,769
Revenue from the sale of goods	110,129,096	111,208,593



	2015	2014
	R	R
4 COST OF SALES AND OTHER OPERATING EXPENSES		
Cost of sales and other operating expenses are arrived at after taking the following items into account:		
AUDITORS' REMUNERATION	1,100,335	1,000,000
Current year	1,100,335	1,000,000
CONSULTATION FEES	-	13,480
COSTS OF INVENTORIES RECOGNISED AS AN EXPENSE	346,489,203	88,271,880
DEPRECIATION	33,835,971	17,300,998
Buildings	1,428,139	1,084,656
Computer equipment	2,838,547	346,077
Plant and machinery	29,057,016	15,786,420
Vehicles and office furniture	512,269	83,845
DIRECTOR'S REMUNERATION ¹	4,687,630	4,887,173
Executive directors	4,687,630	4,887,173
IMPAIRMENT REVERSED/(RAISED)	(41,631,445)	(42,148,952)
Property, plant and equipment (refer note 9)	(43,741,688)	(40,837,386)
Inventories (refer note 12)	2,110,243	(1,311,566)
LOSS ON DISPOSAL OF ASSETS	1,741,185	170,171
Property, plant and equipment	1,741,185	170,171

	2015	2014
	R	R
NET LOSS ON FINANCIAL INSTRUMENTS (REFER NOTE 6)	2,830,198	-
OPERATING LEASE PAYMENTS	1,877,227	10,470,708
Buildings	-	8,675,011
Computer equipment	974,140	1,020,523
Plant and machinery	903,087	775,173
RESEARCH AND DEVELOPMENT COSTS	7,907,115	2,148,910
STAFF COSTS	181,914,778	186,061,710
Medical fund contributions	7,447,753	6,875,145
Pension costs: Defined contribution plan	10,679,636	15,706,364
Services costs	161,308,462	138,679,199
Staff and related provisions - Variable Pay	2,093,927	24,801,002
Termination benefits paid	385,000	-

1 Detailed remuneration is fully disclosed in the note 25 as Compensation paid to key management personnel. Executive directors' remuneration included is 'from date of appointment as director. The non-executive directors are remunerated by the holding company.

	2015	2014
	R	R
5 OTHER INCOME		
Net gains on financial instruments	-	20,691,896
Profit on disposal of property, plant and equipment	393,282	190,500
Other	2,293,588	2,250,734
	2,686,869	23,133,129

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

	2015	2014
	R	R
6 NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS		
Net foreign exchange differences	(2,830,198)	20,748,043
Net gains/(losses) on settled transactions	(2,830,198)	(56,147)
Gains on settled transactions	6,136,685	-
Losses on settled transactions	(8,966,883)	(56,147)
	(2,830,198)	20,691,896



	2015	2014
	R	R
7 NET FINANCE COSTS		
The amounts below relates to financial instruments measured at amortised cost (financial liabilities, loans and receivables):		
7.1 FINANCE COSTS		
Other interest paid	220	368
Inter-group finance costs	6,699,397	5,893,644
TOTAL FINANCE COSTS	6,699,617	5,894,012
7.2 FINANCE INCOME		
Gross interest received	203	1,043
Inter-group finance income	12,989,905	16,863,937
TOTAL FINANCE INCOME	12,990,108	16,864,981
NET FINANCE COSTS	(6,290,491)	(10,970,969)



	2015	2014
	R	R

8 INCOME TAX EXPENSE

SA NORMAL TAX

Current tax	-	-
Deferred tax (Refer to note 11)	-	-
No provision for SA normal tax has been made as the company is in a calculated tax loss position.	-	-
The calculated tax losses available for offset against future taxable income are as follows:	-	-
Calculated tax loss	1,372,676,441	1,328,211,302
Net available calculated tax loss	1,372,676,441	1,328,211,302
	%	%
Reconciliation of tax rate		
effective tax rate	-	-
Adjustment in tax rate due to:	28.0	28.0
Deferred tax asset not recognised	28.4	28.4
taxable at capital gains tax rate		
Deductible allowances	(0.7)	(0.7)
non-tax deductible expenses	0.3	0.3
SA normal tax rate	28.0	28.0



	LAND AND BUILDINGS R	COMPUTER EQUIPMENT R	OFFICE FURNITURE R	PLANT AND MACHINERY R	VEHICLES R	TOTAL R
9 PROPERTY, PLANT AND EQUIPMENT						
2015						
Carrying value at 1 April	11,935,525	1,185,995	396,461	188,043,315	140,387	201,701,682
Additions	1,166,656	1,327,783	1,095,121	13,187,459	-	16,777,018
Disposals	(581,853)	(32,570)	(151,701)	(2,358,289)	(175,964)	(3,300,378)
Impairment reversal for the year	-	2,225,628	183,917	41,206,547	125,596	43,741,688
Depreciation for the year	(1,428,139)	(2,838,547)	(336,305)	(29,057,016)		(33,660,007)
CARRYING VALUE AT 31 MARCH	11,092,188	1,868,288	1,187,492	211,022,016	90,019	225,260,004
Cost	13,991,106	8,537,819	1,924,874	369,556,462	404,758	394,415,019
Accumulated depreciation and impairment	(2,898,918)	(6,669,531)	(737,381)	(158,534,445)	(314,739)	(169,155,016)
CARRYING VALUE AT 31 MARCH	11,092,188	1,868,288	1,187,492	211,022,016	90,019	225,260,004



	LAND AND BUILDINGS R	COMPUTER EQUIPMENT R	OFFICE FURNITURE R	PLANT AND MACHINERY R	VEHICLES R	TOTAL R
2014						
Carrying value at 1 April	9,885,628	765,112	317,513	105,369,066		116,337,319
Additions	3,134,552	399,298	-	58,476,002		62,009,852
Disposals	-	(3)	(26,749)	(149,632)		(176,384)
Transfer from/(to) assets held for sale	-	-	-	(5,493)		(5,493)
Impairment reversal for the year (Refer note 4)	-	367,664	191,621	40,139,792	144,915	40,843,992
Depreciation for the year (Refer note 4)	(1,084,656)	(346,077)	(85,924)	(15,786,420)	(4,528)	(17,307,605)
CARRYING VALUE AT 31 MARCH	11,935,525	1,185,994	396,461	188,043,315	140,387	201,701,682
Cost	13,570,496	7,758,531	1,068,814	361,460,594	404,758	384,263,194
Accumulated depreciation and impairment	(1,634,971)	(6,572,537)	(672,353)	(173,417,279)	(264,371)	(182,561,512)
CARRYING VALUE AT 31 MARCH	11,935,525	1,185,994	396,461	188,043,315	140,387	201,701,682

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

Owing to the operating losses within the company, the property, plant and equipment has been assessed for impairment. IAS 36 impairment of assets provides that the recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The impairment was based on the fair value less cost to sell for all property, plant and equipment items. Certain property, plant and equipment were impaired in the recent past due to a lack of orders. Since the company has managed to conclude a number of new orders during the year which result in the optimal use of certain of the assets impaired, the impairment for the effected assets has been reversed in 2014/15 financial year and no further impairment on other assets were necessary. The net impairment impact in the statement of comprehensive income is R29 million.

The effect on depreciation as well as accumulated depreciation, as a result of the reassessment of useful lives for the current financial year was R2,4 million, the expected effect for 2016 is R3.5 million

2015

R

2014

R

10 NON-CURRENT ASSETS HELD FOR SALE

ASSETS HELD FOR SALE

Property, plant and equipment

-

5,493

-

5,493



	2015	2014
	R	R
11 DEFERRED TAX		
Deferred tax assets	-	-
Deferred tax liabilities	-	-
	-	-
Movement of deferred tax assets and liabilities:	-	-
Balance at the beginning of the period	-	-
Per statement of comprehensive income	-	-
	-	-
Net deferred tax asset comprises:		
Provisions and accruals	13,782,201	12,207,596
Property, plant and equipment allowance	20,459,886	1,986,373
Prepayments received	-	313,491
limit deferred tax asset to liability	(263,701)	(167,716)
Deferred tax not recognised	(33,978,386)	(14,339,744)
Net deferred tax liability comprises:		
Embedded derivative assets	-	44,757
Prepayments made	263,701	122,959
Deferred tax not recognised	(263,701)	(167,716)

2015

R

2014

R

12 INVENTORIES

Inventories are valued at the lower of cost or net 'realisable value and is categorised as follows:

Raw materials and bought-out components	119,411,849	91,117,088
Work in progress	67,106,208	17,459,857
Contracts in progress	1,652,413	1,033,243
Goods in transit in bound	12,183,235	9,163,175
	<u>200,353,704</u>	<u>118,773,363</u>
Accumulated impairment	9,649,840	7,539,597
NET AMOUNT OF WRITE-DOWN/(WRITE BACK) OF INVENTORIES RECOGNISED AS AN EXPENSE	<u>348,023,029</u>	<u>88,271,880</u>



	2015	2014
	R	R
13 TRADE AND OTHER RECEIVABLES		
FINANCIAL ASSETS	113,940,924	132,403,510
Trade receivables	71,328,388	57,272,778
Trade receivables: Intergroup	4,678,311	3,802,262
Amount due from customers for contract work	33,106,083	63,315,517
Other receivables	4,828,142	8,012,954
Non-financial assets	4,945,690	4,127,868
Prepayments and advances made	4,870,763	4,046,200
Other receivables	74,926	81,668
	118,886,614	136,531,379

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms. Specific impairments are made for identified doubtful debts. Amounts due from customers for contract work relates to the Indemnity claim that is outstanding for payment from the Department of Public Enterprises. The company expects to receive the payment of the Indemnity claim in December 2015. The amount outstanding at 31 March 2014 was paid during December 2014. Prepayments made during the period were for the purchases of inventory and property, plant & equipment.



	2015	2014
	R	R
14 OTHER FINANCIAL ASSETS AND LIABILITIES		
OTHER FINANCIAL ASSETS	-	159,846
Foreign exchange embedded derivatives	-	159,846
	2015	2014
	R	R
15 CASH AND CASH EQUIVALENTS		
Cash and short-term deposits (Refer note 15.1)	3,000	3,000
Loan receivables from holding company (Refer note 15.2)	228,919,264	322,528,215
	228,922,264	322,531,215
15.1 CASH AND SHORT-TERM DEPOSITS		
Cash on hand	3,000	3,000
Cash on hand is cash available as petty cash and earn no interest.		
15.2 LOAN RECEIVABLES FROM HOLDING COMPANY		
Loan receivables	228,919,264	322,528,215

The interest bearing loan account of the holding company is used as a banking facility. On a daily basis the balance of the bank account of the company is off-set against that of the holding company. The group treasury department is responsible for the funding of the group who invest and borrow money at the most advantageous rate for the group. Interest on loan account is earned at market rates. The funds included in the loan account are available on demand.

		2015	2014
		R	R
16	SHARE CAPITAL		
	16.1 ORDINARY SHARES		
	AUTHORISED		
	Number of shares	1,000	1,000
	Par value @ R1 each	1,000	1,000
	ISSUED		
	Number of shares		
	Balance at 1 April	600	600
	Issued during the year	-	-
	Balance at 31 March	600	600
	Par value @ R1 each		
	Number of shares		
	Balance at 1 April	600	600
	Issued during the year	-	-
	Balance at 31 March	600	600
16.2	SHARE PREMIUM		
	Balance at 1 April	1,689,102,979	1,689,102,979
	Issued during the year	-	-
	Balance at 31 March	1,689,102,979	1,689,102,979

	2015	2014
	R	R
16.3 TOTAL ISSUED SHARE CAPITAL		
Balance at 1 April	1,689,103,579	1,689,103,579
Issued during the year	-	-
Balance at 31 March	<u>1,689,103,579</u>	<u>1,689,103,579</u>

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

	2015	2014
	R	R
17 LOANS AND BORROWINGS		
Unsecured loan from Denel SOC Ltd		
Unsecured non-interest bearing loan	200,000,000	200,000,000
Unsecured interest bearing loan	136,236,949	136,236,949
Total non-interest bearing loans and borrowings	<u>336,236,949</u>	<u>336,236,949</u>
SUMMARY OF MATURITY OF BORROWINGS		
Maturing within 12 months	-	-
Maturing between 12 and 60 months	336,236,949	-
Maturing after 60 months	-	336,236,949
	<u>336,236,949</u>	<u>336,236,949</u>

During the year the loan was split in a non-interest bearing portion and an interest bearing portion. Interest is charged to the company at a market related rate of 4.75%. During the previous financial year the company has re-paid the current loan from its share holder using the cash received from the re-capitalisation of the company by the shareholder. This interest bearing loan relates to the overdraft facility utilised by the company.

	2015	2014
	R	R
18 ADVANCE PAYMENTS RECEIVED		
Current advance payments received	-	1,119,611
	-	1,119,611

	2015	2014
	R	R
19 PROVISIONS		
19.1 NON-CURRENT PROVISIONS		
Onerous contracts	98,721	1,507,761
19.2 CURRENT PROVISIONS		
Product warranty and support	33,982,853	29,555,487
Staff related - performance bonus	8,557,092	4,754,485
Staff related - retrenchment	25,425,761	24,801,002
Total provisions	34,081,574	31,063,248

RECONCILIATION

	ONEROUS CONTRACTS R	PRODUCT WARRANTY AND SUPPORT R	STAFF RELATED PROVISIONS R	TOTAL R
2015				
Balance at the beginning of the period	1,507,761	4,754,485	24,801,002	31,063,248
Realised	(1,409,040)	-	(24,801,002)	(26,210,042)
charged to the income statement	-	3,802,607	25,425,761	29,228,368
	98,721	8,557,092	25,425,761	34,081,574
2014				
Balance at the beginning of the period	4,934,691	2,654,063	22,322,012	29,910,766
Realised	(3,426,930)	-	(22,322,012)	(25,748,942)
Charged to the income statement	-	2,100,422	24,801,002	26,901,424
	1,507,761	4,754,485	24,801,002	31,063,248

ONEROUS CONTRACTS

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The contract was concluded in 2004. At the time the company required high capital investment and cost escalation. Additional manufacturing costs had to be incurred to deliver to the customer as well as escalation in material prices. Management implemented a process to manage all project risks. During September 2012 a better sales price was introduced to reduce the total contract loss

PRODUCT WARRANTY AND SUPPORT

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

STAFF RELATED PROVISIONS

Staff related provisions comprise a provision for variable remuneration. This provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is R25 425 761 (2014: R24 801 002).

	2015	2014
	R	R
20 TRADE AND OTHER PAYABLES		
FINANCIAL LIABILITIES		
Trade payables	41,705,771	32,559,910
Trade payables: Intergroup	3,067,708	7,900,311
Accruals	41,903,445	41,638,709
	86,676,925	82,098,931

Trade payables are non-interest bearing and are normally settled between 30 and 90 days. Other payables are also non-interest bearing, and are settled as they fall due in accordance with respective agreements. Interest payable is settled in accordance with the terms (refer note 17).

21 CONTINGENT LIABILITY

CONTRACT LOSSES

The company hold contracts underwritten by external parties. These contracts have a total approximate value of R2 746 009 674 and estimated future contract loss of approximately R51 116 842 (2014: R57 829 303), the significant decrease in future losses is due to successful renegotiations on the Airbus A400m work packages. The A400m programme now supports a viable and sustainable business case for the company in the long term. The company is reimbursed for some losses on these contracts. To date, all claims have been honoured and therefore no provisions relating to these contract losses have been raised. The company's claim for reimbursement of the loss for the year was R33 106 083 (2014: R63 315 517).

	2015	2014
	R	R

22 NOTES TO THE CASH FLOW STATEMENT

23 notes to the cash flow statement

Reconciliation of profit with cash retained from operations

NET LOSS BEFORE TAX	(12,757,101)	(32,942,459)
ADJUSTED FOR:	(11,670,132)	(33,319,056)
(Profit) / loss on disposal of property, plant and equipment	1,347,903	(20,329)
Depreciation	33,835,971	17,300,998
Remeasurement of derivatives	159,846	-
Remeasurement of embedded derivatives	-	56,147
Interest paid (refer note 7)	6,699,617	5,894,012
Interest received (refer note 7)	(12,990,108)	(16,864,980)
Decrease/(increase) in provisions	3,018,326	1,152,482
Impairment reversed on property, plant and equipment	(43,741,688)	(40,837,386)
OPERATING LOSS BEFORE CHANGES IN NET CURRENT ASSETS	(24,427,233)	(66,261,515)
Changes in net current assets:	(60,477,193)	(12,353,974)
Increase in inventories	(81,580,341)	(41,586,798)
Decrease in receivables	17,644,765	15,385,200
Increase in trade and other payables	4,577,994	21,634,482
Decrease in advance payment received	(1,119,611)	(7,786,858)
CASH UTILISED IN OPERATIONS	(84,904,426)	(78,615,489)

	2015	2014
	R	R
23 CAPITAL COMMITMENTS		
Approved and contracted for:		
Building & infrastructure lease improvement	1,509,500	1,268,256
Computer equipment	298,647	269,817
Machinery & equipment	26,574,895	3,095,163
	28,383,042	4,633,236

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

24 NON-CANCELLABLE LEASES

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

	BUILDINGS	COMPUTER	PLANT AND	TOTAL
	R	EQUIPMENT	MACHINERY	R
	R	R	R	R
2015				
Less than one year	9,773,000	1,013,696	794,303	11,580,999
Between one and five years	39,092,000	-	2,919,270	42,011,270
More than five years	29,319,000	-	-	29,319,000
	78,184,000	1,013,696	3,713,573	82,911,269

	BUILDINGS R	COMPUTER EQUIPMENT R	PLANT AND MACHINERY R	TOTAL R
2014				
Less than one year	8,675,011	740,753	754,594	10,170,358
Between one and five years	26,979,660	-	1,755,205	28,734,865
More than five years	24,636,176	-	-	24,636,176
	60,290,847	740,753	2,509,799	63,541,399

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

25 RELATED PARTIES

Related party transactions are disclosed in terms of the requirements of the relevant standard. Materiality has been considered in the disclosure of these transactions.

DENEL GROUP

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

NATIONAL GOVERNMENT AND STATE CONTROLLED ENTITIES

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

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

During the year the company, in the ordinary course of business, entered into various sales and purchase of goods and services with the other related parties of the group. The effect of these transactions is included in the results of the company. These transactions occurred under terms that are no less favourable than those arranged with third parties.

	DENEL SOC LTD AND SUBSIDIARIES ZAR	DENEL SOC LTD SUBSIDIARIES ZAR	DENEL SOC LTD ASSOCIATED COMPANIES ZAR	NATIONAL GOVERNMENT ZAR	MAJOR NATIONAL PUBLIC ENTITIES ZAR
The following transactions were carried out with related parties					
2015					
Interest paid	6,699,397	-	-	-	-
Interest received	12,989,905	-	-	-	-
Lease payments	9,328,638	-	-	-	1,069
Outstanding balances payable	339,304,657	-	393,738	-	2,360
Outstanding balances receivable	233,405,274	192,301	1,317	33,106,083	2,697
Purchases of goods	1,533,826	-	-	-	-
Purchases of properties and other assets	-	-	-	-	-
Sales of goods	8,680,845	-	202,966	33,106,083	48,868
Sales of properties and other assets	10,678	-	-	-	-
Services received	44,966,561	1,846,502	-	-	18,086
Services rendered	-	798,060	-	-	-

	DENEL SOC LTD AND SUBSIDIARIES ZAR	DENEL SOC LTD SUBSIDIARIES ZAR	DENEL SOC LTD ASSOCIATED COMPANIES ZAR	NATIONAL GOVERNMENT ZAR	MAJOR NATIONAL PUBLIC ENTITIES ZAR
2014					
Interest paid	5,893,644	-	-	-	-
Interest received	16,863,937	-	-	-	-
Lease payments	8,675,011	-	-	-	1,069
Outstanding balances payable	344,137,261	-	221,616	-	-
Outstanding balances receivable	326,249,249	81,228	-	63,315,517	-
Purchases of goods	2,210,264	-	-	-	-
Sales of goods	9,308,704	-	-	63,315,517	27,974
Services received	40,550,457	1,758,573	-	-	28,844
Services rendered	-	407,886	-	-	-



	2015			2014		
	SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYEE BENEFITS	TOTAL	SHORT-TERM EMPLOYEE BENEFITS	POST- EMPLOYEE BENEFITS	TOTAL
Compensation paid to key management personnel	R	R	R	R	R	R
I Dockrat (Resigned November 2014)	2,599,876	134,427	2,734,303	2,970,296	201,641	3,171,937
C Visser (Resigned July 2014)	936,781	34,517	971,299	1,537,678	98,154	1,635,832
T Kleyhans (Appointed December 2014)	551,813	53,166	604,979			
H Shangase (Appointed January 2015)	157,962	15,898	173,859			
	4,246,433	238,008	4,484,441	4,507,974	299,795	4,807,769



The company is exposed to various financial risks due to the nature and diversity of its activities and the use of various financial instruments. These risks include:

- credit risk
- liquidity risk
- market risk

Information about the company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing these risks are included in this note. The company's management of capital is also discussed. Further quantitative disclosures are included throughout the annual financial statements.

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

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

26.1 CREDIT RISK

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

RECEIVABLES FROM CUSTOMERS

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

- the potential client's compliance with statutory and regulatory conditions;
- the political risk of the potential client's country;
- the previous business record that the existing client had with within the company (includes but is not limited to payment history);

The most recent credit rating of the country that the potential customer operates in, from the Denel Group's treasury Department. Countries are graded by major international banks and these grading are published on a regular basis. The company uses the international publication, "institutional investor" as a basis for its country risk assessments; and whether finance is available to the potential client.

The policy further requires that for specifically identified contracts, the contractual terms must provide for the retention of ownership over goods until full and final payment has been received. Additionally, security for payment must also be contractually stipulated. Security usually takes the form of irrevocable letters of credit, bank guarantees (from first class international banks in acceptable countries)/bonds, promissory notes and credit insurance. in the case of high risk clients who are unable to provide security over future payments, the company may transact with them only on a pre-payment basis. Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

CREDIT EXPOSURE AND CONCENTRATION OF CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the company's concentration of risk for all non-derivative financial assets.

	2015 RECEIVABLES NOT IMPAIRED R	CARRYING VALUE R	2014 RECEIVABLES NOT IMPAIRED R	CARRYING VALUE R
26.1 CREDIT RISK				
TRADE RECEIVABLES	71,328,388	71,328,388	57,272,778	57,272,778
Not due	39,283,172	39,283,172	34,206,627	34,206,627
Past due				
Less than 30 days	32,045,216	32,045,216	23,066,151	23,066,151
30 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
More than 90 days	-	-	-	-
OTHER RECEIVABLES	4,828,142	4,828,142	8,012,954	8,012,954
Not due	4,828,142	4,828,142	8,012,954	8,012,954
Past due				
Less than 30 days	-	-	-	-
30 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
More than 90 days	-	-	-	-
	76,156,530	76,156,530	65,285,731	65,285,731



	2015			2014		
	DOMESTIC	FOREIGN	TOTAL	DOMESTIC	FOREIGN	TOTAL
	R	R	R	R	R	R
Trade receivables	1,127,426	70,200,962	71,328,388	629,156	56,643,622	57,272,778
Government and related entities	526,486	70,200,962	70,727,448	-	-	-
Non-government entities	600,940	-	600,940	629,156	56,643,622	57,272,778
Other receivables	4,828,142	-	4,828,142	8,012,954	-	8,012,954
Government and related entities	4,828,142	-	4,828,142	-	-	-
Non-government entities	-	-	-	8,012,954	-	8,012,954
	5,955,568	70,200,962	76,156,530	8,642,109	56,643,622	65,285,731
less: Held for sale	-	-	-	-	-	-
	5,955,568	70,200,962	76,156,530	8,642,109	56,643,622	65,285,731



26.2 LIQUIDITY RISK

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

CONTRACTUAL UNDISCOUNTED CASH FLOWS	CARRYING AMOUNT R	TOTAL CASH FLOWS R	LESS THAN 3 MONTHS R	BETWEEN 3 AND 12 MONTHS R	BETWEEN 1 AND 5 YEARS R
Exposure to liquidity risk					
2015					
Non-interest bearing loans and borrowings	336,236,949	336,236,949	-	-	336,236,949
Trade and other payables	86,676,925	86,676,925	44,578,865	42,098,060	-
	422,913,874	422,913,874	44,578,865	42,098,060	336,236,949
2014					
Non-interest bearing loans and borrowings	336,236,949	336,236,949	-	-	336,236,949
Trade and other payables	82,098,931	82,098,931	40,460,222	41,638,709	-
	418,335,880	418,335,880	40,460,222	41,638,709	336,236,949

26.3 MARKET RISK

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

INTEREST RATE RISK

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

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

	2015	2014
	R	R
Variable rate instruments		
Loans and other receivables	228,919,264	322,528,215
Unsecured loan from shareholders	336,236,949	336,236,949
Fair value sensitivity analysis for fixed rate instruments		

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

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

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

	2015	2014
	R	R
impact: change in interest rate	1,681,185	1,681,185

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

CURRENCY RATE RISK

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

	2015 US DOLLAR (USD)	2015 EURO (EUR)	2014 US DOLLAR (USD)	2014 EURO (EUR)
The company's exposure to currency risk was as follows based on the notional amounts:				
Assets	1,565,385	3,927,269	410,242	3,706,021
Trade receivables	1,565,385	3,927,269	285,400	3,706,021
Embedded derivatives (export sales)	-	-	124,842	-
Liabilities	(735,762)	(562,975)	(540,883)	325,918
Trade payables	(735,762)	(562,975)	(540,883)	(325,918)
Balance sheet exposure	829,623	3,364,294	(130,641)	3,380,103
Forecast transactions: sales	-	-	(124,842)	-
Net exposure	829,623	3,364,294	(255,483)	3,380,103

MARKET RISK	R	R	R	R
A 5.0% strengthening of the Rand against the following currencies at 31 March would have increased/(decreased) profit or loss by the following amounts:				
impact: change in foreign exchange rate	501,229	2,205,446	(135,099)	2,458,214

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

2015			2014		
FOREIGN CURRENCY NOTIONAL AMOUNT	LOCAL CURRENCY R	FAIR VALUE R	FOREIGN CURRENCY NOTIONAL AMOUNT	LOCAL CURRENCY R	FAIR VALUE R

The following foreign exchange embedded derivatives existed at 31 March Export transactions

US Dollar (USD)	-	-	-	124,842	1,223,452	1,383,298
Other	-	-	-	-	-	-
	-	-	-	124,842	1,223,452	1,383,298

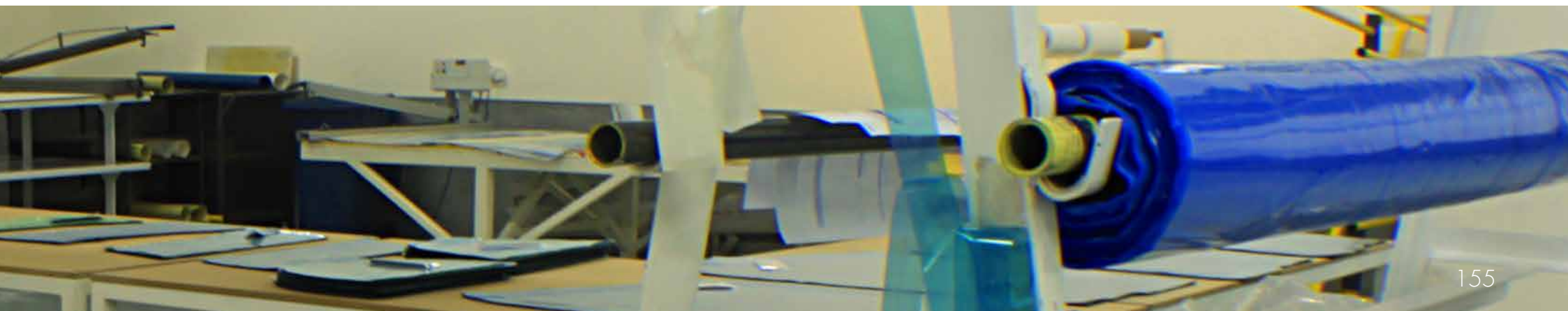


26.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	LOANS AND RECEIVABLES R	LIABILITIES AT AMORTISED COST R	HELD FOR TRADING R	CARRYING AMOUNT R	FAIR VALUE R
2015					
FINANCIAL ASSETS					
Cash and cash equivalents	3,000	-	-	3,000	3,000
Loans and receivables	228,919,264	-	-	228,919,264	228,919,264
Trade and other receivables	113,940,924	-	-	113,940,924	113,940,924
FINANCIAL LIABILITIES					
Interest bearing borrowings	-	(336,236,949)	-	(336,236,949)	(336,236,949)
Trade and other payables	-	(86,676,925)	-	(86,676,925)	(85,662,920)
	342,863,188	(422,913,874)	-	(80,050,686)	(79,036,681)



	LOANS AND RECEIVABLES R	LIABILITIES AT AMORTISED COST R	HELD FOR TRADING R	CARRYING AMOUNT R	FAIR VALUE R
2014					
FINANCIAL ASSETS					
Cash and cash equivalents	3,000	-	-	3,000	3,000
Loans and receivables	322,528,215	-	-	322,528,215	322,528,215
Trade and other receivables	132,403,510	-	-	132,403,510	132,403,510
Other financial assets	-	-	159,846	159,846	159,846
FINANCIAL LIABILITIES					
Associated companies: Loans	-	-	-	-	-
Interest bearing borrowings	-	(336,236,949)	-	(336,236,949)	(336,236,949)
Trade and other payables	-	(82,098,931)	-	(82,098,931)	(82,098,931)
Other financial liabilities	-	-	-	-	-
	454,934,725	(418,335,880)	159,846	36,758,692	36,758,692



DETERMINATION OF FAIR VALUES

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

FAIR VALUE HIERARCHY

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

CAPITAL MANAGEMENT

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

The company manages its capital structure in light of changes in economic conditions and the Board of Directors monitors the capital adequacy, solvency and liquidity of the company on a continuous basis.

The capital resources of the company has been depleted during the past years as a result of loss making contracts and inadequate working capital to optimise the labour and capital intensive operations throughout the company. The shareholder, Denel SOC Ltd, has inject R900 million into the company during the previous financial year. The company utilised a portion of this additional capital to settle the loan from Saab AB (a former shareholder) and to repay R200 million of non-current borrowings from Denel SOC Ltd.

The company further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times. There were no changes in the company's approach to capital management during the year. The company is not subject to externally imposed capital requirements.

POST-RETIREMENT OBLIGATIONS

The company has no post retirement obligations. The company is a participating employer of the Denel Retirement Fund. This fund was established by Denel SOC Ltd as a retirement fund scheme that covers all qualifying employees of the Denel Group which include employees of the company. This fund is a defined contribution plan and is governed by the Pension Funds Act of 1956 (Act no. 24 of 1956). The contributions are charged to profit or loss as it is incurred.

VALUE ADDED STATEMENTS

Value added is a measure of the wealth that the company has created in its operations by adding value to the cost material and services purchased. The statements shows how wealth was created and how it was shared amongst employees, the providers of the funds and the capital re-invested in the company for continuation and expansion of operations.

	NOTES	2015 R	%	2014 R	%
Revenue	3	468,484,818		438,089,362	
less: cost of materials and services purchased		(274,468,530)		(340,676,569)	
Value added		194,016,288		97,412,793	
Add:					
Finance income	7.2	12,990,108		16,864,980	
Other income	5	2,686,869		23,133,130	
WEALTH CREATED		209,693,265		137,410,903	
Distributed as follows:					
Employees: Salaries and relevant costs		181,914,778	86.8	186,061,710	135.4
Providers of capital		6,699,617	3.2	5,894,012	4.3
Interest on borrowings	7.1	6,699,617	3.2	5,894,012	4.3
Government tax (refer note A)		-		1,934,028	1.4
Re-invested in the company for continuation and expansion		21,078,870	10.1	(56,478,847)	(41.1)
Depreciation and impairment of Property, plant and equipment	4	33,835,971	16.1	(23,536,388)	(17.1)
Accumulated profit		(12,757,101)	(6.1)	(32,942,459)	(24.0)
WEALTH DISTRIBUTED		209,693,265	100	137,410,903	100

NOTES	2015 R	%	2014 R	%
NOTE A				
Tax paid	-		-	
UIF contributions	714,510		687,921	
Net skills development levy	916,123		1,246,107	
	<u>1,630,633</u>		<u>1,934,028</u>	
The total amount reflected above excludes the following amounts collected by the company on behalf of Government:				
Net VAT	47,301,867		(48,759,157)	
Charged on sales	(2,662,896)		1,715,017	
Levied on purchases	49,964,763		(50,474,174)	
Employees' taxation	43,736,183		38,600,849	
UIF contributions	714,510		687,921	
	<u>91,752,560</u>		<u>(9,470,387)</u>	



DENEL AEROSTRUCTURES (SOC) LTD TEN YEAR REVIEW FOR THE YEAR ENDED 31 MARCH 2015

	2015	2014	2013	2012	2011
	R	R	R	R	R
CONSOLIDATED INCOME STATEMENTS					
Revenue	468,484,818	438,089,362	261,524,452	260,143,903	281,027,479
Operating profit/(Loss)	(19,047,592)	(43,913,428)	(45,723,857)	(73,950,456)	(223,274,567)
Net finance cost (before capitalised interest)	(6,290,491)	(10,970,969)	5,240,581	4,401,498	13,980,631
Depreciation	33,835,971	17,300,998	14,867,790	29,864,646	14,587,606
Profit/(Loss) for the year	(12,757,101)	(32,942,459)	(50,964,438)	(78,351,953)	(237,255,198)
CONSOLIDATED STATEMENTS OF CASHFLOWS					
Cash outflow before financing activities...	(93,608,951)	(129,457,660)	(160,254,407)	(65,498,906)	-
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION					
Non-current assets	225,260,004	201,701,682	116,337,319	120,167,987	101,008,313
Current assets	548,162,582	577,995,803	681,308,031	211,374,351	242,860,280
Assets classified as held for sale	-	5,493	-	1,100,000	7,329,602
Total assets	773,422,586	779,702,978	797,645,351	332,642,338	351,198,196
Non-current liability	336,335,670	337,744,710	341,171,640	111,706,527	134,564,808
Current liabilities	120,659,778	112,774,029	94,346,992	179,830,871	278,592,102
Total equity	316,427,138	329,184,239	362,126,719	40,984,941	(61,958,714)
Non-current interest-bearing borrowings	336,236,949	336,236,949	336,236,949	109,086,482	123,127,561

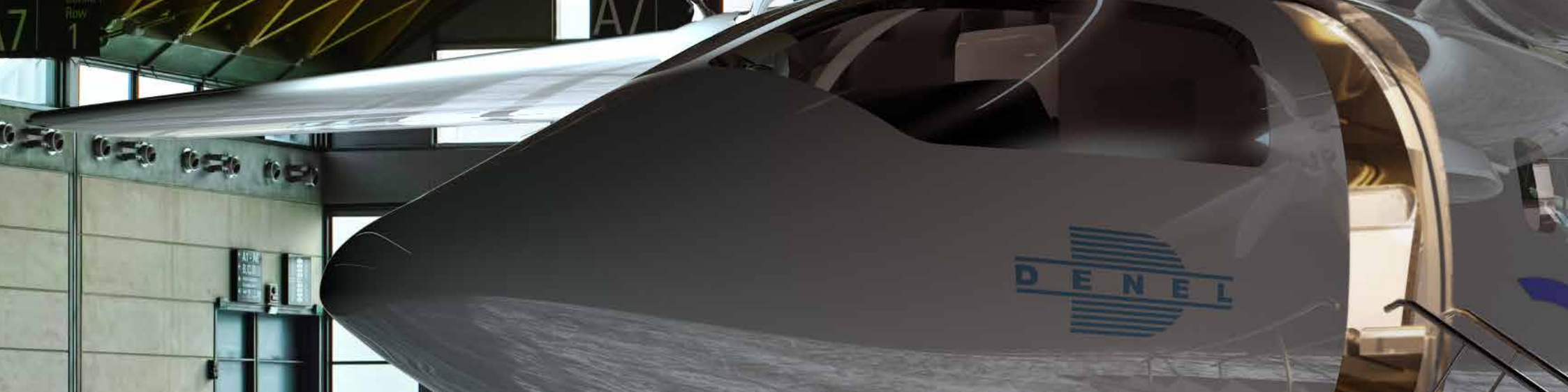
	2015	2014	2013	2012	2011
	R	R	R	R	R
Current interest-bearing borrowings	-	-	-	65,513,706	167,389,349
STATISTICS					
Number of shares in issue	600	600	600	400	400
RETURNS %					
Gross profit/(loss) margin	7	(7)	(18)	15	(17)
Operating profit/(loss) margin	(4)	(10)	(17)	(28)	(79)
Net profit/(loss) margin	(3)	(8)	(19)	(30)	(84)
Operating profit/(loss) to ordinary shareholders' interest	(6)	(13)	(13)	15	55
Operating profit/(loss) to average total assets	(2.5)	(5.6)	(5.7)	(22.2)	(63.6)
RATIOS					
Debt/equity ratio	1.1	1.0	0.9	2.7	(2.2)
Current asset ratio	4.5	5.1	7.2	1.2	0.9
Net finance cost cover	(2.0)	(3.0)	9.7	17.8	17.0
Revenue per employee (Rm)	1,079,458	1,045,559	660,415	681,005	591,637
Number of employees	434	419	396	382	475





INFORMATION

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CONTACT INFORMATION

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2006/028012/30

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GLOSSARY

A

AAD - African Aerospace and Defense

B

B-BBEE - Broad Based Black Economic Empowerment

C

CEO - Chief Executive Officer

CGVRS - Central Guide Vertical Restraint System

CSIR - Council for Scientific and Industrial Research

D

DAe - Denel Aerostructures SOC(ltd)

DIP - Defense Industrial Participation

DTA - Denel Technical Academy

E

EBIT

- Earnings before Interest and Taxation

I

IPAP

- Industrial Policy Action Plan

N

NIP

- National Industrial Participation

NDP

- National Development Plan

O

OEM's

- Original Equipment Manufacturers

R

R & D

- Research and Development

S

SARA

- Small African Regional Aircraft

SMME

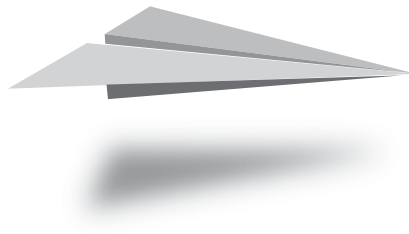
- Small, Medium and Micro Enterprises





*THE BEST PREPARATION FOR GOOD WORK TOMORROW
IS TO DO GOOD WORK TODAY.*

- ELBERT HUBBARD



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DENEL AEROSTRUCTURES