TWENTY 19/20
INTEGRATED REPORT

ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations and its ability to create value for the period 01 April 2019 to 31 March 2020. Financial information includes information regarding associated companies. All significant items are reported on a comparative basis.

ASSURANCE

Financial information

The financial information in this report has been prepared in accordance with International Financial Reporting Standards (IFRS). It was independently audited by Denel's external auditors, the Auditor General of South Africa. The report of the external auditors on the financial statements is included on page 111.

Non-financial information

The following main standards have been considered in providing non-financial information:

- The Companies Act (Act 71 of 2008)
- The King IV Code on Corporate Governance
- The IIRC's International <IR> Framework
- GRI G4 guidelines

REPORT CONTENT

This report outlines the group's outlook and highlights opportunities and challenges, as well as planned actions to address them. The planned actions take into account business priorities, risks and recommendations made by stakeholders.

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

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit Committee, has taken overall responsibility and accountability for this report. The Board confirms that it has collectively reviewed its content and concluded that the Integrated Report is presented in accordance with the International <IR> Framework. The Board believes that this report is a balanced and appropriate presentation of the profile and performance of Denel. The Board approved this report on 22 January 2021.

Chairperson

Audit Chairperson

DENEL

A GLOBAL DEFENCE TECHNOLOGY COMPANY

TWENTY 19/20
INTEGRATED REPORT

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


DENEL

WHO WE ARE

PART 1

OUR VISION AND PURPOSE

VISION

We are an innovative global defence, security and related technology solutions company.

PURPOSE

To provide turnkey solutions of defence, security and related technology, to our clients by designing, developing, integrating, testing and evaluating, and supporting artillery, armour-protected vehicles, missiles munitions, unmanned aerial vehicle systems, aircraft maintenance and aerostructures based on high-end technology, effectively and efficiently.

OUR VALUES

Integrity

We are honest, truthful and ethical.
We will always act in the best interest of Denel.

Courage

We are willing to challenge and make difficult decisions.
We are willing to push through uncomfortable situations.

Performance

We strive for excellence in all that we do.

Accountability

We take ownership for our actions and behaviour.

PERFORMANCE HIGHLIGHTS

ECONOMIC

Revenue:	R2.7 bn	Cash:	R635 m
2018/19:	R3.4 bn	2018/19:	R606 bn
Debt: Equity	-1.58:1	Borrowing	R3.6 bn
2018/19:	-1:36:1	2018/19:	R3.7 bn
Net Profit/Loss	R1 962 m	R&D Spend	R53 m
2018/19:	R1 469 m	2018/19:	R108 m

TRANSFORMATION

B-BBEE:	Level 4	ACI* appointments:	90%
2018/19:	Level 6	2018/19:	83%
Female appointments:	43%		
2018/19:	58%		

SOCIAL

Black-owned spend*	R602 m	Skills development:	R21 m
2018/19:	R417 m	2018/19:	R32 m
Corporate social development:	R-	Employee numbers:	3 332
2018/19:	R593 k	2018/19:	3 968

*Black/ACI means African, Coloured or Indian persons as defined by the Broad-Based Black Economic Empowerment (B-BBEE) Act.

WHO WE ARE

Denel is a state-owned commercially driven company and strategic partner for innovative defence, security, aerospace and related technology solutions.

Denel provides turnkey solutions of defence equipment to its clients by designing, developing, integrating and supporting artillery, munitions, missiles, aerostructures, aircraft maintenance, unmanned aerial vehicles systems and optical payloads based on high-end technology.

OUR BUSINESS DIVISIONS ARE AS FOLLOWS:



DENEL AERONAUTICS

Denel Aeronautics, an operating division of Denel and strategic capability for the South African National Defence Force (SANDF), delivers end-to-end-aeronautical solutions, including aircraft, engine and component maintenance, repair and overhaul (MRO), aircraft system upgrades and integration with a core manufacturing capability required for MRO support. Denel Aeronautics remains the Original Equipment Manufacturer (OEM) of the Rooivalk Combat Support Helicopter (CSH), as well the Design Authority of the Oryx Medium Transport Helicopter (MTH) and the Cheetah multi-role fighter aircraft. The Denel Technical Academy (DTA) continues to be incorporated under Denel Aeronautics.



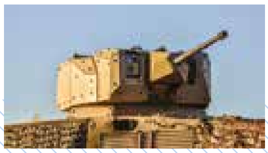
DENEL DYNAMICS

As an innovation leader in advanced systems technology, the core business of Denel Dynamics is the design, development and manufacture of tactical missiles and precision-guided weapons. It also offers competitive tactical Unmanned Aerial Vehicles Systems (UAVS) and high-speed target systems, and develops satellite systems for the South African government through the South African National Space Agency (SANSA). Denel Dynamics' flagship programmes include the A-Darter joint development of the air-to-air missile with Brazil and its successful relationship with the Finnish Navy using the Umkhonto surface-to-air missile. These programmes contribute to Denel's ability to penetrate international markets.



DENEL LAND SYSTEMS

Denel Land Systems (DLS) is a leading project-based, consolidated systems designer and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. It is also a subsystem supplier for artillery, rapid-fire medium-calibre weapons and combat vehicle systems. Part of DLS, the Mechem business unit, is a global leader in solutions for a safer environment through the clearance of landmines and explosive remnants of war (ERW), as well as mine-and ballistic-protected vehicle design and manufacture. Its customers include the United Nations (UN), other international agencies, governments and commercial customers worldwide.


DENEL VEHICLE SYSTEMS

Denel Vehicle Systems (DVS) is a subsidiary of Denel SOC, which provides turnkey vehicle systems to military and police customers in South Africa and in selected export markets. DVS has three divisions, i.e. Denel Olifant Manufacturing Company (OMC), Denel Gear Ratio and Denel Mechatronics. DVS has close relationships with the SANDF, especially the South African Army (SA Army), Armscor and the South African Police Service (SAPS), as well as with the NIMR and IGG companies in the United Arab Emirates (UAE) and several other local and international customers, suppliers and collaborators.


DENEL OVERBERG TEST RANGE

Denel Overberg Test Range is a versatile test range specialising in in-flight systems performance measurements for the local and international defence and aerospace industries. Its spectrum of services ranges from tests of short-range guided munitions for land, sea and air combat, to the evaluation of modern standoff weapons and aviation systems.


DENEL PRETORIA METAL PRESSINGS

Pretoria Metal Pressings (PMP) is an integrated manufacturer of small- and medium-calibre ammunition, brass products, detonics, power cartridges and mining drill bits. The company has been supplying products to military and police forces, and to the hunting and sporting fraternities around the world, for more than 80 years.

CHAIRPERSON'S REPORT

I am privileged to have served as Chairperson of Denel during this period; albeit a period that was characterised by several challenges, some of which were carried over from the previous period. The Board has put a great deal of effort into turning the company around, improving corporate governance and establishing a stable management team.

Our Shareholder, the Department of Defence, and the Board are confident that Denel remains a strategic asset for our country and will continue to do so. Denel remains confident that all its actions will yield positive results. Some of these actions include continuous engagements with our key customer, the Department of Defence, and the end-users the SANDF, which includes the South African Army, Air Force and Navy) regarding funding models to protect the company's strategic and sovereign capabilities, the regular monitoring of cash flows, and ongoing engagement with the Lenders group (Absa, Rand Merchant Bank and Nedbank), creditors, suppliers and National Treasury. There is a major emphasis on strengthening the balance sheet through efficient working capital management and improving the capital structure, as well as adherence to good governance in all its activities. As a result of these interventions, the Board believes that Denel will continue to operate as a going concern.

Some of the achievements for this period can be summarised as follows:

TURNAROUND STRATEGY

Denel's turnaround strategy, which was necessitated by the liquidity challenges experienced over the past few years, is gaining momentum. My fellow Board members, together with the Shareholder, dedicated much of their time during the period under review engaging with various stakeholders to find solutions to a number of challenges that were identified in the previous financial year.

This strategy, developed in April 2018 when the new Board was appointed, remains at the core of Denel's mission to ensure the long-term sustainability of the organisation. Its key strategic objectives include the following:

- Maximising the value of Denel's core business areas
- Delivering on strategic equity partnerships
- Exiting non-core business areas
- Improving corporate governance and combating fraud, corruption and wastage
- Driving cost reduction and optimising the utilisation of Denel's assets
- Securing funding through high-level support from the Shareholder
- Growing the company's order book
- Ensuring the retention of core skills and capabilities
- Restoring Denel's reputation and improving employee morale and loyalty

An important initiative that forms part of the turnaround strategy involved the exiting and winding up of loss-making subsidiaries in order to reposition the company and restore its profitability. The first of these was the exiting of Denel's aerostructures manufacturing business, which was expected to be largely concluded by the end of July 2020, resulting in an annualised savings benefit of R260 million.

As a wholly owned subsidiary of the state-owned company, Denel Aerostructures SOC Ltd specialises in aerospace design and the advanced manufacture of complex aerostructures. The winding up of Denel Aerostructures did not affect any other business conducted by Denel Aeronautics.

Another initiative that formed part of the turnaround strategy and presented an opportunity to stabilise the company on a more viable basis was the further exploration of strategic equity partners to enhance sustainable revenue and access to the markets. Denel received unsolicited offers from a number of parties during the period under review, all of which are exploratory at this stage.

The company will follow all the relevant legislative requirements in pursuing these preliminary interests in the next financial year. In the meantime, it is continuing with the disposal of all identified non-core assets and the winding up of its loss-making subsidiaries. It is also continuing to secure funds from debtors to enable the company to generate its own revenue and return to profitability

CORPORATE GOVERNANCE

The Board has continued to prioritise interventions to change the operating culture so that Denel can be viewed as a transparent and honest partner to all its stakeholders. Following the departure of its Group CEO, Danie du Toit, Mr Talib Sadik, a non-executive director, was appointed as Interim Group Chief Executive in August 2020. We are confident that this will ensure a seamless transition while the Board appointment for a permanent Group CEO is underway.

The Board is furthermore committed to turning the tide on corruption and mismanagement at Denel. As such, it pursues strategic initiatives that are aimed at improving corporate governance and combating fraud, corruption and wastage, and restoring Denel's reputation. The Board is encouraged by the Auditor-General's report on the supply chain improvements to prevent and detect irregular expenditure. In the meantime, investigations are underway to identify past transactions that may be condoned and in which disciplinary action may be taken.

Denel's forensic investigations related to the Chad contract, Denel Asia and VR Laser have been completed, reviewed by legal counsel and the recommendations are being implemented. Disciplinary hearings are ongoing, and statements related to these matters have been finalised and handed over to the SAPS for investigation into criminal matters.

RESPONSE TO THE COVID-19 PANDEMIC

Like many organisations across the country, Denel ended the financial year with the prospect of a nationwide lockdown. Government's response to the effects of the coronavirus (COVID-19) was anticipated to lead to major economic challenges, from which Denel would not be immune. The defence and manufacturing sectors were expected to be severely affected by these economic challenges, which would also impact on several of Denel's activities, as well as its cash flow. However, the full impact of the pandemic will only be seen in the following financial year.

Denel nonetheless responded to the pandemic by coordinating a project aimed at the local design and development of medical ventilators to be used for the treatment of COVID-19 patients under Project Sabela. Engineers from Denel Dynamics and Denel Land Systems have been working in partnership with

Our Shareholder, the Department of Defence, and the Board are confident that Denel remains a strategic asset for our country and will continue to do so. Denel remains confident that all its actions will yield positive results.

other state-owned entities, research organisations and specialist medical technology companies in the private sector to produce these ventilators.

Other divisions in the Denel Group also contributed to the national response to the pandemic. This included Denel Aeronautics, which provided valuable technical support to the helicopter fleet of the South African Air Force that was deployed in all the country's nine provinces. The Oryx transport helicopters carried critical medical and humanitarian supplies to communities on a daily basis and conducted surveillance operations. Denel Aeronautics also carried out critical repair work on the main gearboxes of two Oryx helicopters and technical support teams were on standby around the clock to do maintenance, repairs and testing of equipment.

APPRECIATION

On behalf of the Board, I wish to acknowledge the work of the former Group CEO, Danie du Toit, who provided confidence in the company, both internally and externally, while leading the business turnaround plan. I also wish to acknowledge the support of Denel's management and its employees who have contributed to building our organisation and who remain committed to its future.

I wish to express my appreciation to our stakeholders, partners, suppliers and investor community for their continued support to Denel during the past year. Your backing and trust will enable Denel to grow its business in the years to come and add value to the South African economy and society.

As an organisation, Denel interacts with government departments and agencies on a regular basis, and I wish to thank key role players such as the Chief of the South African National Defence Force, General Solly Shoke, the former Secretary of Defence, Dr Sam Gulube, and Advocate Solomzi Mbada and his colleagues at Armscor.

Furthermore, I am appreciative of the support received from the Minister of Defence and Military Veterans, Nosiviwe Mapisa-Nqakula, who has been a tireless champion of the defence industry in general, and Denel in particular; the Minister of Public Enterprises, Pravin Gordhan, for the confidence he has displayed in the members of the Board; and Director-General Kgathatso Tlhakudi and the officials of the Department of Public Enterprises for their continued interest and support for Denel. I am also indebted to the Minister of Finance, Tito Mboweni, and his team at National Treasury, for their continued support, which will assist in returning Denel to a financially viable organisation.

While continuing our efforts to transform Denel into a sustainable defence and advanced manufacturing company, I wish to assure our employees, suppliers, customers and stakeholders that the Board's focus on financial sustainability is a top priority.

Monhla Hlahla
Chairperson of the Board
Denel SOC


Seeker 400

BOARD OF DIRECTORS

MS MONHLA HLAHLA (57)

Bachelor of Arts Honours in Economics from Pomona College, Master of Arts in Urban and Regional Planning, Advanced Management Programme

INDEPENDENT NON-EXECUTIVE DIRECTOR & CHAIRPERSON

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Board, member of the Personnel, Recruitment and Transformation Committee and member of the Social and Ethics Committee

DIRECTORSHIPS: Non-executive director at Ruta Thari Limited, Stanlib Limited and Asset Management, Exarro Resources Limited and Liberty Holdings

MR TALIB SADIK (55)

Bachelor of Commerce, Advanced Diploma in Accounting, Advanced Management Programme, CA(SA)
He served as Group CEO of Denel between 2008 and 2012

INTERIM GROUP CHIEF EXECUTIVE OFFICER & EX OFFICIO DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to the Board and Board committees

DIRECTORSHIPS: Non-executive director of Tohoku Properties, Sunspray Foods, Sectional Poles, Arpdeen Inv. and Sediba Trust

MS CARMEN LE GRANGE (48)

BCom degree, Postgraduate Diploma in Accountancy, Theory in Audit Specialism, CA (SA)

GROUP CHIEF FINANCIAL OFFICER & EX OFFICIO DIRECTOR

Appointed as Group Chief Financial Officer with effect 9 September 2019

DENEL BOARD COMMITTEE MEMBERSHIPS: Ex-officio Director and invitee to the Board and Board Sub- committees

DIRECTORSHIPS: Power and Infrastructure Engineering (Pty) Ltd, Lincoln Advisory (Pty) Ltd, Abacus Insurance Limited, Abacus Life Limited, Independent Regulatory Board for Auditors (IRBA), Neledzi Woman Investments (Pty) Ltd

DR SIBUSISO SIBISI (65)

PhD and BSc (Physics) in Science and Technology

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the Finance and Risk Committee and of the Audit Committee

DIRECTORSHIPS: Non-executive director at Liberty Holdings and Telkom SA SOC Limited

LIEUTENANT-GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA (67)

Presidential Strategic Leadership Development Programme, Master's Degree in Management and Development and Bachelor of Social Science

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the Social and Ethics Committee

DIRECTORSHIPS: Non-executive director of National Treasury (Management Performance Assessment Tool)

MS SUE RABKIN (72)

BA Honours in English and Education

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of Social and Ethics Committee and Risk Committee

BOARD OF DIRECTORS

MRS GLORIA SEROBE (61)

BCom degree and MBA degree

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Finance and Investment Committee and member of the Audit Committee

DIRECTORSHIPS: Founder and Executive Director of WIPHOLD. Non-executive Director of Hans Merensky Holdings, and Adcorp Holdings

MR THAMSANQA MAGAZI (63)

Bachelor of Science in Business Administration, Master's in Business Administration (MBA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of Personnel, Remuneration and Transformation Committee, member of Audit Committee and Risk Committee

DIRECTORSHIPS: A 100% shareholder and director of Reata Supplies International (company dormant) and non-executive director of Leshala Laruna Investments, Brighthorse Investments, Reatisa Smart Technologies, Avo Mac Enterprises (Pty) Ltd and Reata Aviation Services (Pty) Ltd

MS NONZUKISO (ZUKIE) SIYOTULA (36)

Bachelor of Accountancy (Honours), MBA, CA(SA)

INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRPERSON

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Audit and Risk Committee and member of the Human Capital and Remuneration Committee

DIRECTORSHIPS: Executive Director of Siyotula Holdings (Pty) Ltd and non-executive director at African Phoenix Investment Limited, Ogilvy and Mather South Africa (Pty) Ltd, Stangen Investments CC, Specpharm Holdings (Pty) Ltd, Specpharm Group (Pty) Ltd, Taste Holdings Limited, Toyota Financial Services (South Africa) (Pty) Ltd, Westcoal Mining, Lesco (Pty) Ltd

MR MANDLA MARTIN MNISI (40)

LLB degree, LLM (Human Rights Law) and LLM (Banking and Stock Exchange Law)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the Risk Committee and Finance and Investment Committee

DIRECTORSHIPS: Director - MNS Attorneys

GENERAL (RETIRED) SIPHIWE NYANDA (70)

Bachelor of Arts degree and Master of Science (Financial Management)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of Personnel, Remuneration and Transformation Committee and Finance and Investment Committee

DIRECTORSHIPS: Director of Gen S Nyanda Consulting and Oasis Media

MS KABELO LEHLOENYA (40)

Diploma in General Management, BCom (Accounting), BCom Hons (General), BCom Hons (Accounting), Postgraduate Diploma in Accounting Sciences, CA(SA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Risk Committee and member of the Audit Committee, and Finance and Investment Committee

DR HANNELIE NEL (48)

Bachelor's degree in Engineering (Chemical Engineering), Master of Science degree in Engineering and Doctorate in Engineering Management (Industrial Engineering)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Social and Ethics Committee, member of the Risk Committee, and member of the Personnel, Remuneration and Transformation Committee

DIRECTORSHIPS: Managing Director of Tennelli Industries

EXECUTIVE COMMITTEE

MR TALIB SADIK (55)

BCom, Advanced Diploma in Accounting, Advanced Management Programme, CA(SA)

EXECUTIVE DIRECTOR

Appointed to the Group Executive Committee in August 2020

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to the Board and Board sub-committees

DIRECTORSHIPS: Non-executive director of Tohoku Properties, Sunspray Foods, Sectional Poles, Arpdeen Inv. and Sediba Trust

MS CARMEN LE GRANGE (48)

BCom degree, Postgraduate Diploma in Accountancy, Theory in Audit Specialism, CA (SA)

EXECUTIVE DIRECTOR

Appointed as Group Chief Financial Officer with effect 9 September 2019

DENEL BOARD COMMITTEE MEMBERSHIPS: Ex-officio Director and invitee to the Board and sub-committees

DIRECTORSHIPS: Power and Infrastructure Engineering (Pty) Ltd, Lincoln Advisory (Pty) Ltd, Abacus Insurance Limited, Abacus Life Limited, Independent Regulatory Board for Auditors (IRBA), Neledzi Woman Investments (Pty) Ltd

MR KHOHLONG WILLIAM HLAKOANE (48)

Mechanical Engineer with an MBA from the Milpark Business School

GROUP CHIEF OPERATIONS OFFICER

Appointed to the Group Executive Committee in 1 July 2019

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to all Denel Board sub-committees

DIRECTORSHIPS: Appointed non-executive director, and Chairperson of Strategy and Policy, Aerospace Maritime Defence Industries Association of South Africa

MS MERCIA NGEMA (46)

MBA, Postgraduate Programme Organisational Development, Honours degree in HR Management

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION

Appointed to the Group Executive Committee in July 2019

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to the Personnel, Remuneration and Transformation Board sub-committee

DIVISIONAL CHIEF EXECUTIVE OFFICERS

SELLO NTSHIHLELE (57)

MEng (Electrical and Electronic), MBA

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

Appointed as Chief Executive Officer in 1 August 2019

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic development, strategic leadership, operations, programme management, product development of guided munitions, RAM engineering, system integration, business development, global partnering and negotiations

PHALADI PETJE (54)

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

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

Appointed as Chief Executive Officer in May 2013

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic planning, business development and business process re-engineering

MXOLISI MAKHATHINI (48)

BSc (Electronic Engineering), National Diploma (Electrical Engineering), MSAIEE

CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS AND DENEL VEHICLE SYSTEMS

Appointed as Chief Executive Officer in September 2019

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Vast executive leadership experience; Marketing and New Business Development; Extensive Programme Management Experience; Specialist Experience in the design of control systems; and broad exposure to advanced manufacturing processes (FMCG).

MICHAEL KGOBE (50)

Master's degree: Aeronautical Production and Maintenance, Executive Leadership Programme, Executive Development Programme.

CHIEF EXECUTIVE OFFICER: DENEL AERONAUTICS

Appointed as Chief Executive Officer in March 2010

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategic planning and implementation, policy formulation, professional practice and ethics, organising and planning, presentation and communication, research and report writing, project planning and management, negotiation skills

BRIDGET SALO (43)

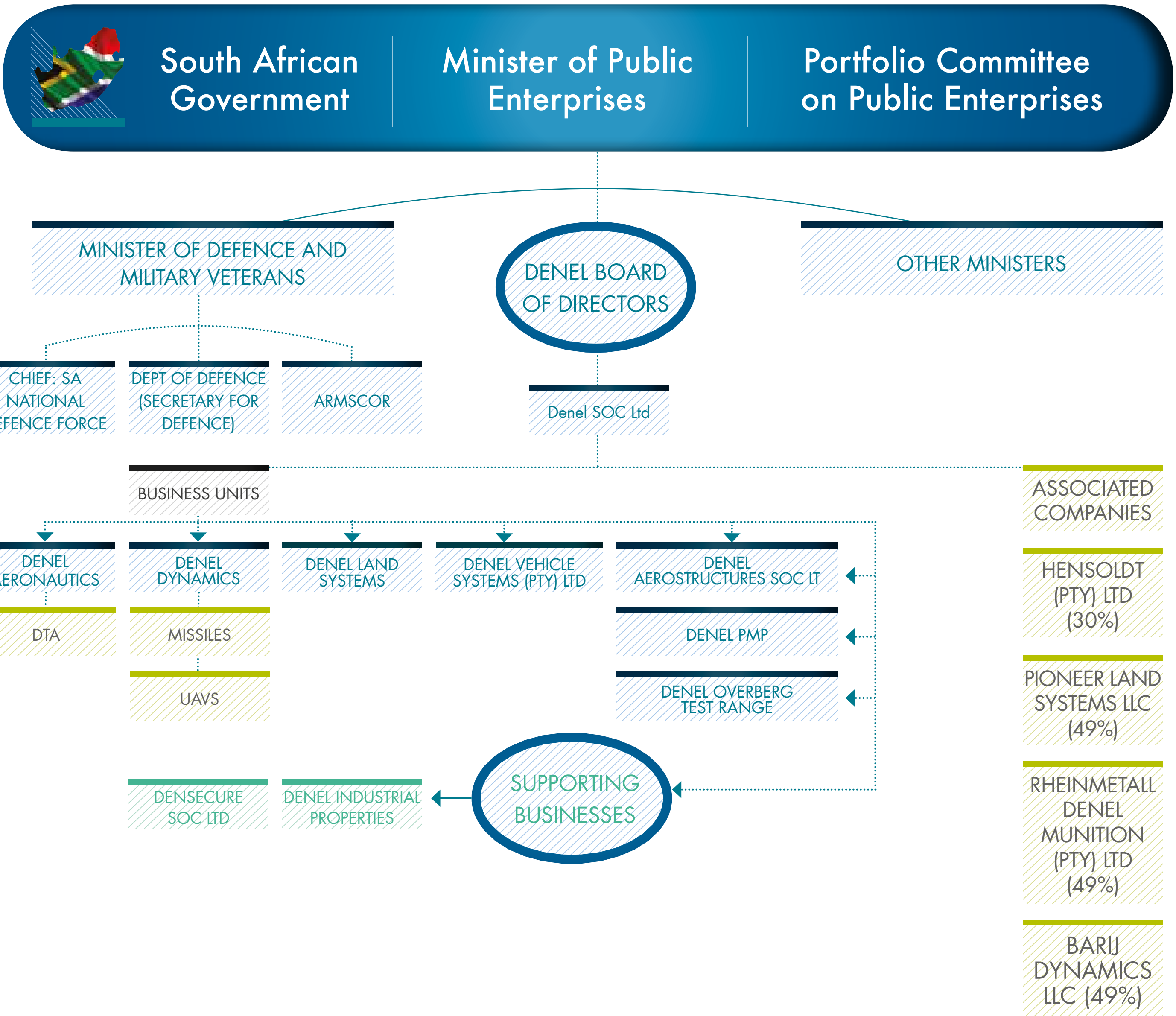
Master's degree: Public Admin, BPA (Hons), BTech and NDip Public Management and Administration, Executive Leadership Programme

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

Appointed as Chief Executive Officer in April 2020

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business and people management, as well as executive leadership experience

ORGANISATIONAL STRUCTURE



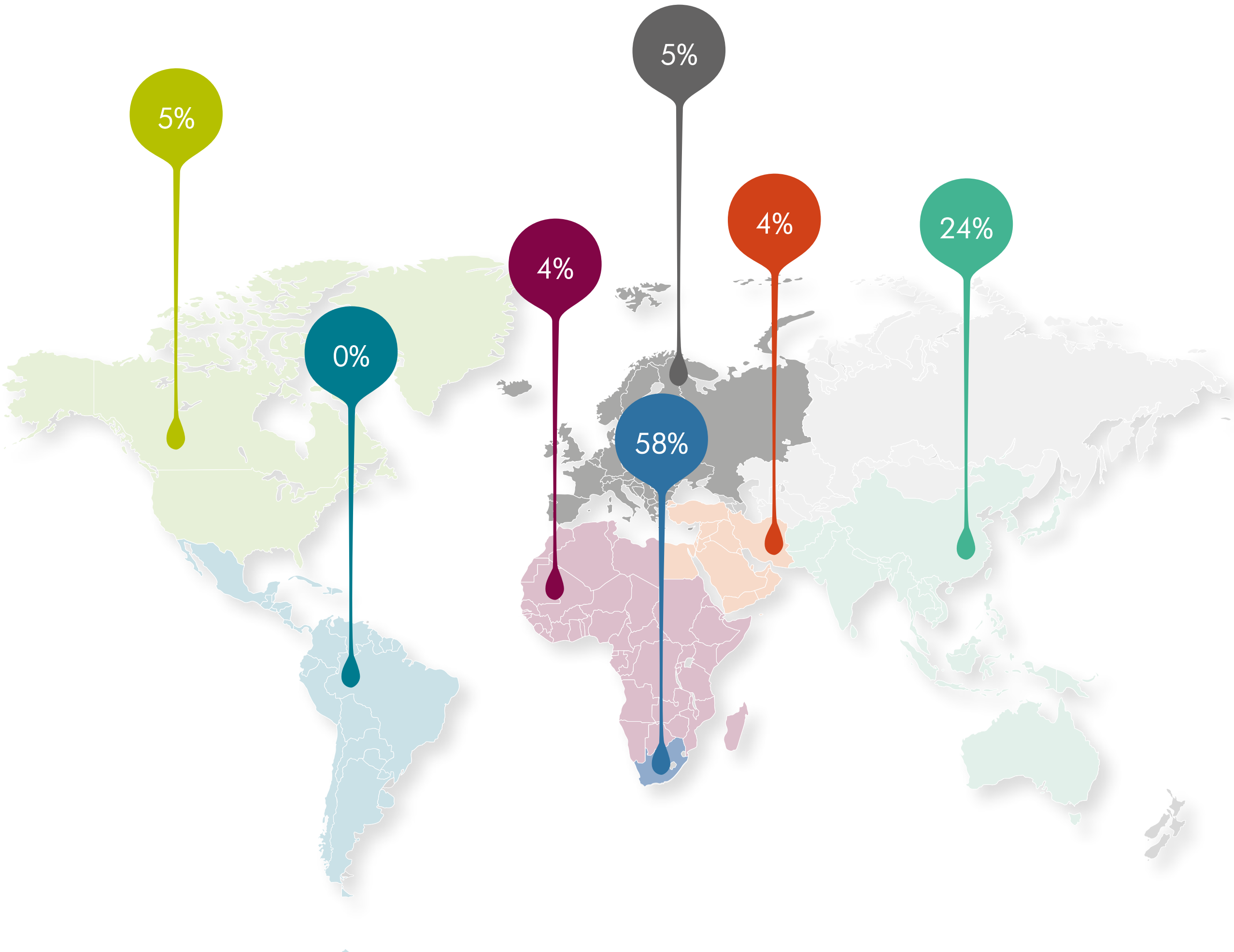
STRATEGIC EQUITY PARTNERSHIPS

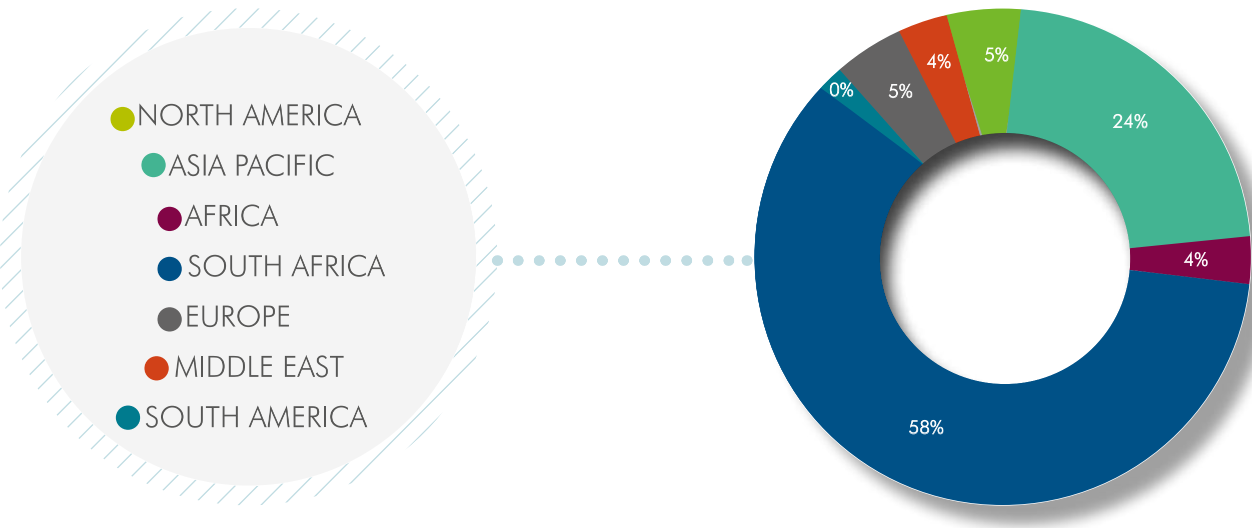
HENSOLDT	INTERNATIONAL GOLDEN GROUP	RHEINMETALL	PAMODZI	BARIJ DYNAMICS

Denel acquired the full stake in Turbomeca Africa, and it was incorporated into the Denel Aeronautics division.

*Denel Asia is in the process of deregistration.

OUR GLOBAL PRESENCE





DENEL BUSINESS MODEL

CAPITAL INPUTS

INTELLECTUAL
- Internally developed systems R&D
- Unique customer solutions
- Skilled and technologically qualified employees

HUMAN
- Effective and responsible leadership
- Developing skills
- Transformed skills workforce
- Retaining key talent

FINANCIAL
- Profitability
- Order book quality and growth
- Source appropriate funding
- Access to funding
- Cashflow efficiency and working capital management

NATURAL
- Energy needs for manufacturing

SOCIAL AND STAKEHOLDER ENGAGEMENTS
Effective engagements to:
- Employees and trade unions
- Shareholders and funders
- Customers and suppliers
- Government and regulators

ACTIVITIES

CONCEPTUALISATION
- Identifying customer needs

RESEARCH AND DEVELOPMENT
- Innovative technological advancements

BIDDING AND CONTRACTING
- Scoping and contracting

DESIGN AND DEVELOPMENT
- Developing cutting-edge technologies

MANUFACTURING AND INTEGRATION
- Manufacturing, maintenance, assembly, integration and testing

SERVICES, SUPPORT & UPGRADE
- Delivery, product support and warranty

OUTPUTS

PRODUCTS

SERVICES

SOLUTIONS

OUTCOMES

R&D spend
R53 m

Sustained strategic
capabilities

3 332
employees

Responsible
leadership

R1354 bn
paid remuneration

0 learnerships, sponsorships and other training

R2.7 bn
revenue

R1 962 m
loss

Cash and cash equivalents
R635 m

Order pipeline
<R26 bn

Skills development
R21 m

Level 4

B-BBEE

CSI spend
R-m

Maintained relationship with organised labour

EXTERNAL ENVIRONMENT:

- Global demand for defence and security products
- Shareholder's Compact demands

*Further detail on products is found on pages 11 and 12 on Denel Capabilities

CREATING VALUE FOR OUR STAKEHOLDERS

PART 2

HUMAN CAPITAL:

Denel is a proud South African public company that contributes greatly towards socio-economic development, youth development and employment creation. It is committed to building a sustainably profitable organisation with a diverse and capable workforce. The company's strategy on human capital management is aligned to its purpose statement and business turnaround strategy. The company offers distinct skills development opportunities and is proud of its committed workforce, which cuts across different occupational categories.

The human capital management and transformation function's purpose is to deliver sustainable fit-for purpose business solutions to enable organisational effectiveness, productivity and efficiency improvement to enable the turnaround strategy.

As part of Denel's turnaround plan, the company embarked on a process to exit non-core business, creating an opportunity to acquire strategic equity partners.

On the back of the Shareholder's Compact and the Denel Corporate Plan, human capital management and transformation actively focused on three strategic priorities for the period under review.

- **Ensure business stability and productivity improvement** – Maintain a stable labour environment, enhance employee engagement, maximise value for core business, and ensure sustainable cost optimisation.
- **Organisation culture transformation** – Cultivate a culture of high performance, improve employee morale, continuous improvement on governance, ethics and compliance including B-BBEE, restore Denel's brand and reputation.
- **Leadership and technical capability development** – Develop and retain leadership and technical capability, develop capacity to enable a talent pipeline and succession risk gap closure to secure the future of Denel.

GOVERNANCE AND COMPLIANCE

Although Denel had received a non-compliance penalty and a fine from the Department of Labour for not submitting the 2018/19 Employment Equity Report. The outcome of the August 2019 Denel B-BBEE Audit also resulted in a Level 6 B-BBEE rating. The company had set a target to achieve a Level 5 B-BBEE rating for the period under review. Due to collaborated efforts and rigour demonstrated by leadership and employees, Denel achieved a Level 4 B-BBEE rating certificate for the period 2019/20. Key areas of improvement were in management control, employment equity, skills development (the absorption of learners) and an increase in localisation (procurement spent on defence material produced in South Africa).

This par excellence compliance achievement is a clear demonstration of our employees' commitment, teamwork, cross-functional collaboration, and a consistent focus on culture transformation and organisation effectiveness.

TALENT MANAGEMENT AND SKILLS DEVELOPMENT

The Group Talent management and Succession Management Framework has been developed to enable accelerated growth and development. The organisation successfully identified the "Top 20 Leadership" positions. A three-year gender responsive plan strategy has been developed as a result: the identification of the "Top 20" females in leadership for accelerated female development.

Leadership development and segmentation remains a critical factor going into the next financial year. In line with the culture transformation journey, Denel will be embarking on a process to redefine leadership competencies. Upon development of the leadership competencies, the organisation will embark on a process to identify, leadership development initiatives, targeting different segments of leadership and frontline management.

A climate survey was conducted to establish the relevance of the Denel values. The company embarked on a bottom-up approach, yielding to the development of transitional corporate values of performance, courage, accountability and integrity.

The Denel Training Academy continues to be a hub for apprentice and artisan training, with the focus on skills that are relevant to Denel and the industry at large. Training takes one year of theory and includes preparation for trade tests. On-the-job training is continuing well in the various divisions of Denel that have been accredited by the Manufacturing, Engineering and Related Services Sector Education and Training Authority (Merseta) to provide on - the - job training. One of the critical elements considered this year was how to streamline the intake, ensuring close collaboration and growth opportunity creation across different divisions.

Engineering academies in some Denel divisions are contributing to the group's development of a skills base by offering engineering graduates practical exposure to the primary engineering programmes in various divisions of Denel. This strategy continues to be a focus area going forward, more so as the organisation embraces the Fourth Industrial Revolution.

Although the organisation experiences liquidity challenges for the period in review, bursary graduates are continuously being absorbed into the business after the completion of their studies. Graduates, mostly from technical disciplines, are given opportunities on short-term internship programmes by various Denel divisions. This process allows the graduates to acquire critical work skills, while simultaneously affording Denel divisions the opportunity to assess the graduates' employability. However, divisions are under no obligation to employ the graduates full time. This provides Denel with a bankable future skills pool/base to tap from as the company's financial situation improves in the coming years.

On a small scale, the Denel learnership programmes in the various fields enhance the company's employment equity profile. Skills gained in various divisions are varied and, in the coming years, learners that perform well during the learnership are to be integrated into the strategic workforce plan.

Denel proactively offers vacation work opportunities for students who are required to gain workplace experience to complete their tertiary qualifications. First opportunities are granted to Denel bursary holders, however, where an opportunity arises, non-Denel bursary holders are also accommodated.

Denel divisions have embarked in a skills verification audit process, with a key focus on programmes, in order to pro-actively manage possible risks that may hinder the delivery of key projects going forward.

The Denel divisions are robust in developing career paths to encourage younger employees to select the career progression routes that would contribute to the success of the group and best suit the individual. The career routes range from engineering-in-training through to principal engineers, right up to consulting engineers. They also range from junior project/programme managers to specialist project /programme managers.

The Denel Mentorship programme is under review for further improvement. Solid mentorship provides the basis for these critical interventions. Each division has a mentorship programme in place that is constantly tracked and evaluated by the divisional training committees. Such programmes assist in the nurturing of future technical/ managerial abilities and the development of technical competence.

Denel acknowledges that currently there is a gap in the succession ratio, particularly in critical positions. An integrated Talent Management Framework and Philosophy has been developed to mitigate this risk over a specific timeline in order to secure the future of Denel. The company intends to strengthen the talent pool for all identified key positions within the group for succession management, leveraging on the rotation of people to maximise value.

KEY INPUTS	TRADE OFFS	VALUE CREATED
Total employees at 1 April 2019: 3 968 Leadership structure Positive relationship with organised labour	Although spending on training and remuneration may reduce the financial capital, the skills development of employees is important to provide skilled, motivated and productive employees	Amount paid in wages and salaries R1 380 m (2018/19: R2 145 m) Total headcount 3 332 (2018/19: 3 968) Artisans trained 212 (2018/19: 212) Spend on skills development R21 m (2018/19: R32 m)
Actions to enhance outcomes		
» Organisation stabilisation » Employee morale improvement » Critical skills retention » Accelerated skills development » Culture transformation		

SOCIAL CAPITAL

EDUCATION INTERVENTIONS

The Denel group's social responsibility interventions are both a tangible expression of one of the company's values, which is *"caring"*, and an important part of its commitment to the Shareholder's Compact. The Corporate Social Investment (CSI) Programme is a key feature of how Denel conducts its business. As a state-owned company, it has deliberately chosen to use CSI as a strategic lever to contribute, in partnership with government, to the elimination of the persisting social ills of poverty, unemployment and inequality.

The vision for the group's CSI is to build sustainable communities by leveraging off Denel's expertise in science, technology, engineering and mathematics (STEM) to support the country's human capital development strategy. Denel provides skills development to the youth, focusing on STEM education and training. Through these initiatives, it is intentionally and deliberately contributing to the development of the next generation of scientists, engineers, technicians and artisans.

Our corporate social responsibility (CSR) continues in line with our business obligation to serve the interests of our customers, employees, shareholders and the communities we work in. We have integrated our CSR work as an integral part of our core business processes and stakeholder management.

Despite the constraints caused by cash flow challenges within the business, we have managed to maintain some of our CSI activities during the past year, especially those associated with education and the youth.

Teacher Development / Salary Support: Denel pays the salary for extra teachers so that the school can accommodate more learners from the area. Learners from the area would have to commute extensively if they were not accommodated in these local schools.

The following programmes were suspended due to cash flow challenges:

Maths And Science Education

The Denel flagship intervention, which is the Schools Outreach Programme (SOP), operated as an extra-tuition programme during weekends and school holidays. The SOP delivered additional tuition in Mathematics, Science, English and Life Science to learners in the beneficiary schools. The programme served as a feeder to Denel's skills development pipeline and learners who performed well in their matric year became eligible for a bursary to study at either a university or at the Denel Technical Academy.

In partnerships with the departments of Education in five provinces – Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga and the North West – the SOP had an annual average enrolment of about 500 learners in Grades 10 to 12. The additional tuition they received in the subjects contributed an extra 65 days to the academic calendar. The programme made immense contributions towards improving matric results over the years. Denel partnered with the South African Air Force (SAAF) to host winter camps where learners were provided tuition in Maths and Science with an exposure to products and talent within the STEM environment.

Career expositions

Base Days: Working in close collaboration with the Department of Defence and Military Veterans, the Denel group implemented a programme of high-impact career expos that were hosted at military bases, particularly targeting the rural areas. The events provided information and an experience of Denel's products to rural learners, exposing them to possible career opportunities within the STEM field. The key elements were information sharing supported with a "see, touch and feel" experience on products designed and manufactured by Denel.

Government Outreach Programmes

In support of government's strategy for the cooperative implementation of programmes, Denel partners with the Department of Public Enterprises, as well as the Department of Higher Education and Training (DHET)'s strategic, high-profile career days, which lead to broader brand exposure and profiling.

SUPPLY CHAIN INTERVENTIONS

Part of Denel's triple mandate, which informs the supply chain strategy and associated activities, is to be a commercially sustainable state-owned company and to contribute to the socio-economic objectives encapsulated in the National Development Plan. It is in response to this mandate that the supply chain division seeks to procure goods and services at the lowest total cost, while simultaneously advancing transformation objectives through targeted spend on eligible black-owned companies.

In order to achieve targeted spend, Denel is to actively invest in the development of black-owned companies with potential, as well as increased support for locally produced goods and services.

Local spend reduced from R1.8 bn (2018/19) to R1.6 bn (9.33% decrease) for 2019/20. The reduction in spend is mainly attributed to reduced operations and the continued liquidity challenges. The current financial year has seen a substantial increase in spend allocated to black/designated groups, improving from R0.8 bn 2018/19 to R1.2 bn (45.78% increase). There has, however, been a significant reduction in spend on the black-owned youth and black people living with disabilities categories with R7.96 m (39.8%) and R9.46 m (20.04%), respectively. The Enterprise and Supplier Development Programme produced 58 beneficiaries, of which 40 (68.97%) are core and 18 (31.03%) are non-core.

KEY INPUTS	TRADE OFFS	VALUE CREATED
Enterprise supplier development. CSI programmes that support Maths and Science learners. Collaboration with the Shareholder and funders.	The developmental spend on both the enterprise development and skills development must be balanced against the financial capital. The investment in communities through social investment will reduce the financial capital in the short term, but will result in growth in this capital in the longer term.	• Supply chain management system that is focused on the national plan to improve inequalities among previously disadvantaged individuals. • B-BBEE Status Level 4 (2018/19: Level 6) • Enterprise development spend: R3.6 m (2018/19: R3.8 m) • Learners who have benefited from the Schools Outreach Programme: 0 (2018/19: 430) • Total CSI spend: R0 k (2018/19: R539 K) • Contributes to the improvement of Maths and Science knowledge

Actions to enhance outcomes

- Realistic and performance-based strategies to be implemented to improve not only spend in the black people living with disabilities and black youth-owned categories, but also revisit spend on Military Veterans. This will require a thorough market review for Denel's product and services portfolios and a robust supply chain strategy.
- Improve the B-BBEE status levels

ENVIRONMENTAL CAPITAL

The group's business delivers a positive impact on the country's economic and social development, However, industrial activities in areas where Denel operates might have inherent negative effects on the environment. It then becomes a strategic imperative to conduct business in an environmentally responsible manner to mitigate negative impacts to the environment.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

The group addresses environmental responsibilities in the design, manufacture, packaging and transportation processes of the value chain as part of an integrated environmental management system. Environmental impact studies and environmental risk assessments are included as key operational and strategic imperatives in the business units' processes. Several environmental aspects have been identified as material for the Denel group and we manage, monitor and report on these on a regular basis.

Social and Ethics committee

Divisional CEOs

KEY ENVIRONMENTAL GOALS

Protection of species and habitats, and the conservation of biodiversity and natural resources.

Denel screens suppliers using environmental criteria at most of its business entities and will extend these screenings to all campuses. The company is not aware of any potential or actual negative environmental impacts that could arise from its supply chain environment.

ENERGY AND CARBON EMISSIONS

Denel's ongoing commitment to reduce energy consumption and its carbon footprint is reflected in its continuous investment in mitigation strategies. This is further apparent in the policy-driven objective to improve energy efficiency and reduce our direct greenhouse gas emissions.

Denel is constantly assessing its operational energy requirements and developing specific objectives and measures to be implemented. Denel has implemented an energy management policy that supplements the environmental management programme to address energy efficiency and reduce consumption.

ENERGY EFFICIENCY PROGRAMME

Denel's manufacturing plants require stable and affordable energy in an uninterrupted manner to operate efficiently. Across the group, the company continues to implement energy conservation projects to reduce energy consumption and carbon emissions.

Measures taken to maintain energy savings include instilling responsible energy consumption behaviour in the workplace. Building on the significant advancements in the energy efficiency improvement programme over recent years, we implemented a three-tier plan, which is reviewed and updated annually.

WATER

The group recognises that water is a finite resource to be conserved as part of environmental sustainability. Measures are taken to ensure the efficient use of this finite resource, while maintaining operations and facilities at optimal capacity. Taking this to its ultimate conclusion requires investigating alternative sources of water such as groundwater (borehole water), which involves proper planning and related capital expenditure at an appropriate time. Water utilisation is quantified, reported and monitored across the group.

WASTE AND RECYCLING

The management of waste is an important element of environmental responsibility and is embedded in the environmental management systems of the group. Accordingly, waste management plans are developed, implemented and continuously reviewed at local level, and both hazardous and non-hazardous waste are handled accordingly. Waste disposed of is reported and monitored in terms of the recycling, reuse and recovery waste management strategies.

LAND STEWARDSHIP AND NATURE CONSERVATION

Denel's operations involve explosive and chemical-related activities, which increase the risk of contamination and pollution of the environment. Denel has put in place systems to detect and mitigate the adverse effects on the environment of its operations. The system includes procedures to handle or prevent major spillages that may contaminate land. These procedures are part of the emergency response plans in the safety, health and environment management system. During the year under review no material incidents were recorded.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Electricity Water Waste	Impacting negatively by using non-renewable waste and through emissions. We minimise impact through different initiatives indicated above.	Reduced energy consumption 68 380 160 kWh (2019/18: 78 159 000 kWh)

Actions to enhance outcomes

- Continuing to monitor and achieve energy-efficiency improvements
- Sustainable water conservation programmes
- Improving on-site waste disposal practice

INTELLECTUAL CAPITAL

Denel is continuously keeping abreast of new technologies, and maintaining the internal knowledge accumulated over many years, and across many different products. Investment in research and development (R&D) and the careful capturing and management of intellectual property (IP) during product development are critical to maintain and expand the technologies and capabilities required to offer world-class, high-technology defence products. This is in line with Denel's mandate as a key strategic organ of the state.

The tangible IP that Denel holds, together with the tacit knowledge of experienced and technically qualified employees, supported by the required specialist equipment and infrastructure, are key inputs in the intellectual capital, and define the capability of the organisation.

Partnerships with academic institutions, research bodies and industry peers to develop, pilot and implement new technologies remain key in advancing new technologies. Collaboration with clients on new technology development or exploiting the rights to existing IP to fund new original work are platforms used to expand Denel's capabilities and to get access to new technologies that address specific or broad client needs.

The core capability of the business is supported by key organisational intangible assets, including, among others, the corporate know-how, management systems and company culture. Intangible intellectual capital is particularly relevant in the implementation of large-scale projects. In this respect, project management, specialist procurement, the management accounting, legal and contracting skills and efficient recruitment of the right human capital come to mind.

Denel is one of the few organisations in the country where engineers are exposed to the development of technically complex and large-scale systems engineering. Its products require elements of all engineering disciplines, as well as the best practices in applying the most recent technologies. This is a natural attraction for young engineers that are recruited from university and immediately adopted into functional teams within the business. This allows them the opportunity to be trained on-the-job while working individually and under the leadership and mentorship of experienced senior personnel. Postgraduate studies are encouraged, and continued training is well organised in the company. This ensures that Denel's workforce stays ready to face the requirements of this demanding and satisfying workplace.

During the project development phase, a challenge may be that the complexity, or scope of work is sometimes underestimated during conceptualisation. This may lead to delays in project deliveries due to many unknowns and the complexity of the project as designs are mainly custom-made to client needs. Denel has developed and adopted a project life cycle management framework that provides structure and guidance to predetermined "gate reviews" associated with the various project life cycles. The framework provides a consistent performance monitoring and control system that integrates all the key activities throughout the whole life cycle of the project, from the bidding phase to the execution phase. The framework is currently being reviewed to include other aspects of project management, supply chain, contract management and cost management.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Collaboration with client on new technology development Partnership with academic institutions Business processes and management systems Skilled and qualified employees	Investment in intellectual capital reduces financial capital in the short term, but increases financial and human capital in the long term.	Investment in R&D R53 m (2018/19: R108 m) Investment in bursary and internship programmes
Actions to enhance outcomes		
» Investment in R&D to keep abreast of the latest technology trends. » Providing training and skills development for artisans and engineers		

FINANCIAL CAPITAL

Denel's strategic relevance for value creation for the Shareholder is to stimulate and support South Africa's economic growth. This is enabled by sustainable and bankable profits. Apart from creating value through business activities, Denel's mandate is also to reinvest the financial capital created in each of the other capitals in a manner that is most efficient and sustainable for the business.

The inputs to the financial capital are underpinned by access to adequate borrowings and maintaining adequate cash reserves. Denel aims to retain and improve financial strength. To achieve the strategic objective, the focus areas in 2019/20 were:

- Maintain access to capital borrowings
- Optimise cash conservation, unlock prepayments and renew National Treasury bank guarantees
- Structurally review the fixed cost structure throughout the group
- Optimise scarce resources to improve cost management
- Exercise resilience in working capital management
- Improve credit ratings
- Adopt an aggressive and focused cardinal campaign to increase the order book.

KEY INPUTS	TRADE OFFS	VALUE CREATED
Long- and short- term borrowings Cash and cash equivalents Share capital and reserves	The financial capital allows the growth and sustainability of the business and has a positive impact on all the other capitals.	Earnings before interest and taxation – -R1 515 m (2018/19: -R1 339 m) Cash generated from operations – -R811 m (2018/19: -R217 m) Cash and cash equivalents – R635 m (2018/19: R606 m)
Actions to enhance outcomes		
» Gain investor confidence to retain credit facilities » Improve working capital management processes to retain and generate cash » Review the cost structure to improve shareholder value		

STAKEHOLDER ENGAGEMENT

PART 3

STAKEHOLDER ENGAGEMENT

The King IV Report for Integrated Reporting identifies stakeholder engagement as an important part of integrated reporting. It is further seen as central to strategic business and reporting decisions. Over the period under review, Denel has continued to place stakeholder engagement and management at the centre of its business and delivery model. This has been particularly important as the business implements its turnaround strategy with efforts to rebuild confidence among its clients and stakeholders.

It is important that whatever changes the business is going through are communicated and appreciated by our stakeholders and that the brand repositioning gains foothold among our key stakeholders and the market in general. During the past year, we have benefited from the support of our Shareholder, government and parliament in navigating policy implications for the turnaround strategy. Government has also been at the forefront of assisting Denel to overcome its cash flow challenges through support and guiding direction towards the long-term financial sustainability for the business.

We have continued to maintain the shareholder support, including marketing support and the resultant industry participation programmes.

Given the economic challenges facing the country and the resultant downturn in the defence industry, it had been important for the South African defence industry (SADI) to foster better collaborative efforts in the delivery of orders. This has meant that both government and industry had to find ways to work together to ensure the sustainability of our country's defence capability, despite the difficult economic conditions we face. Engagements with industry, including those within the Denel supply chain, have been a critical component of such collaborative efforts. Denel continues to play an important role within the South African Aerospace Maritime and Defence Industries Association (AMD) and has maintained its seat on the board of the industry association.

The table below is an overview of the engagement process in the 2019/20 financial period.

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

SHAREHOLDER AND PARLIAMENT

- Ministry of Public Enterprises
- Director-General (DG)
- Deputy Director-General (DDG)
- Department of Public Enterprises Senior Management
- The Presidency of the Republic
- Parliament of RSA

ISSUES	ENGAGEMENT METHODS	OUTCOMES
• Conclusion of cardinal campaigns • Exit of non-core assets, improve programme management, drive efficiencies and grow revenues • Maintain the shareholder support for Denel's business strategy, including marketing support, navigating the regulatory environment and industry participation programmes • Securing strategic equity partners • Repositioning capability systems • Driving operational efficiency improvements, penetrating export markets • Restructuring the Executive Committee (EXCO), senior management and managing overcapacity. Appointment of executive members at group level. • Denel recapitalisation • Denel's finances • Deregistration of Denel Asia • Aligning to the Shareholder's developmental agenda for Denel as articulated in the Shareholder's Compact • Update on the findings of Denel's forensic Investigations • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Government oversight of progress in advancing B-BBEE, diversity management and skills and enterprise development within Denel • Denel's response and planning during the COVID-19 pandemic and lockdown	• Scheduled and ongoing engagements between the Minister and the Board Chairperson, Members of the Board and Executive Directors • Engagements to report on progress and strategic review of Denel's Shareholder's Compact targets with Department of Public Enterprises (DPE) • Bilateral and issue-specific meetings between the DPE and Denel's executive management • Oversight visit by the new members of the Portfolio Committee on Public Enterprises • Participations and visibility of the Shareholder in Denel's initiated stakeholder activities	• Application for recapitalisation through DPE and National Treasury has been made • Progress has been made on expediting the strategy and implementation of the turnaround plan • The Board and management is working tirelessly to restore and strengthen its relationship with the shareholder • Better understanding of Denel's financial status and assistance to ensure financial sustainability • Ensuring that credibility and reputation are restored through corporate governance, accountability and transparency • Support and alignment between the Shareholder and Denel to benefit the business

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

PRIMARY CLIENTS AND CUSTOMERS

- Minister of Defence
- Department of Defence (DoD), Defence Secretariat and the SANDF
- Armscor

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Non-payment of customers and clients • Denel's recapitalisation • Hoefyster reset, restarting operations, support to ensure serviceability and availability of SANDF's main equipment • On-time delivery of products and improve programme management, delays on the Airbus A400M programme • Road-shows to the DoD/ Armscor to report on the turnaround strategy milestones • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Deregistration of Denel Asia • Building and strengthening relationships with government, both as a partner in the development of the country, the Shareholder and as a key client • Denel's response and planning during the COVID-19 pandemic and lockdown	• Monthly and weekly issue-driven meetings • Joint planning sessions between Denel and DoD/Armscor • Regular briefings to the Ministry, Secretary for Defence, Chief of the Defence Force, the Council on Defence (D), and the Plenary Defence Staff Council • Monthly and weekly issue-specific meetings, e.g. SAAF-Denel Steering committee meetings • Submission of project reports • Joint planning sessions between Denel and DoD/Armscor • Ongoing and one-on-one meetings between Denel and Armscor's Board and EXCOS • Participation in relevant business events, strategic committees, working groups, forums and shows, IDEX 2019, LAAD 2019 • Attending the DoD Budget Vote • Written comments and workshops between the DoD/ Armscor and Denel	• Strengthened relationship and trust between Denel and the DoD • Strengthened relationship of mutual trust and support • Success on key campaigns and increase in orders placed with Denel • Armscor support of the defence industrial participation credits

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

OTHER GOVERNMENT DEPARTMENTS

- National Treasury
- Department of Transport
- South African Police Service
- Department of Science and Innovation
- Department of Trade and Industry
- Department of Telecommunications and Postal Services
- Department of Home Affairs
- Department of International Relations and Cooperation
- Department of Higher Education and Training

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Road shows to report on the turnaround strategy milestones • Engagement to report on the turnaround strategy milestones • Communicate the processes in place to strengthen governance, improve programme management, drive efficiencies and grow revenues • Update on the findings of Denel's forensic investigations • Engagement to discuss collaborations • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Denel's response and planning during the COVID-19 pandemic and lockdown	• Presentation of Strategic Integrated Programme to coordination structures • Attending Budget Votes of key government departments • Participation in government business delegations both local and International, IDEX 2019, LAAD 2019 • Joint planning sessions and regular scheduled issue-specific meetings • Participation and visibility of key government officials in Denel's initiated stakeholder activities	• Some of the key relationships which were fractured are now regained and the levels of trust are improving • Rebuilding the relationship and increasing trust levels is ongoing and will continue into the next financial period. • Strengthened relationship of mutual trust and support • Support for Denel's business strategy and turnaround plan • Establishment of strategic partnerships with government departments and state agencies

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

INDUSTRY PARTNERS AND CLIENTS

- National Defence Industry Council (NDIC)
- AMD
- SADI
- National Conventional Arms Control Committee (NCACC)
- Council for Scientific and Industrial Research (CSIR)

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Non-Payment of suppliers • Deregistration of Denel Asia • Engagement to report on the turnaround strategy milestones • Engagement with NCACC about end user certificates and permits • Communicate the processes in place to strengthen governance, improve programme management, drive efficiencies and grow revenues • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Update on the findings of Denel's forensic investigations • Engagement to discuss collaborations • Repositioning Denel as a custodian of core strategic and sovereign capabilities • Engagement to elevate product ranges, services, solutions and new capabilities • Engagement to influence policy direction, payments, projects and new business lobbying • To use business associations as a forum through which we can promote our viewpoints on key industry issues • Denel's response and planning during the COVID-19 pandemic and lockdown	• Frequent and structured interaction at monthly meetings with various industry bodies, AMD, NDIC, SADI • Monthly meetings with various industry bodies, AMD, NDIC • Presentations to various industry bodies, strategic committees, working groups and forums • SAAF-Denel Steering Committee meetings • Client visits to Denel campuses • Participation at international and local exhibitions and shows • Hosting of foreign delegations and defence attachés at Denel campuses	• Negotiating with suppliers, in some circumstances, admitting liability in writing and undertaking to pay • Rebuilding the relationships and increasing trust levels is ongoing and will continue into the next financial year, as some of the key relationships were fractured and remained strained with low levels of trust • Weakened industry support for Denel's projects will need to be rebuilt • Restored relationships with increased support and collaboration • Denel's business strategy and turnaround plan is key and needs continuous support

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

SUPPLIERS/CREDITORS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Engagement with suppliers to maintain support for Denel's business • Denel's recapitalisation • Engagement to report on the turnaround strategy milestones • Engagement on the state of the Denel business and its impact on the non-payment of suppliers • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Update on the findings of Denel's forensic investigations • Engagement to encourage responsible practices across Denel's supply chain, B-BBEE, local procurement, supplier conduct and environmental considerations • Inclusion of critical suppliers in cross-functional teams so as to contribute expertise and advice before specifications are developed for products or services • Denel's response and planning during the COVID-19 pandemic and lockdown	• Ongoing interaction with suppliers and contractors • Frequent engagements at divisions • Monthly and quarterly meetings • Customer-specific operational meetings • Industry networking sessions • Participation and visibility of suppliers in Denel's initiated stakeholder activities • Regular scheduled and ongoing engagements between the Group CEO, Exco and suppliers and creditors	• Relationships with suppliers are strained due to non-payment and weak communication • Some business operations are halted due to suppliers' refusal to deliver parts without upfront payment • Process of strengthening these relationships to continue into the next financial year

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

INTERNAL STAKEHOLDER

- Organised labour
- All employees

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Denel's recapitalisation • Delay in salary payments and the non-payment of the pension fund contribution and other statutory obligations • Communication on the implementation of the voluntary severance packages (VSP) and application process • Appointment of the new executive management • Liquidity challenges • Governance and leadership conduct, i.e. disciplinary processes instituted against former Denel executives, resignation of the Group Strategy Executive • Engagement to give an update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Providing staff with strategic direction and keeping them informed about Denel's activities; more particularly, in relation to Denel's turnaround plan milestones • Exiting Denel Aerostructures and LMT Holdings • Delivery of relevant business-orientated messages and campaigns on behalf of management • Employee training and development and transformation • Denel's response and planning during the COVID-19 pandemic and lockdown	• Road shows of Group CEO and senior executives • Engagement surveys, emails, intranet communications, infograms • A robust combination of face-to-face, written and broadcast communications • Communication with employees through different platforms e.g. Tips for Danie, intranet and infograms • Targeted employee events and celebrations of National Calendar Days as group • Impact making (effective) participation in relevant Denel events, strategic committees, working groups and forums • Participation and visibility of employees in Denel's initiated stakeholder activities • Regular meetings with organised labour and the Senior Leadership Forum	• Roadshows to introduce the new executives to employees • The process of rebuilding relationships is ongoing and needs to be strengthened through more transparent and trust-based engagements • Employee buy-in for a short-term rescue plan and a long-term turnaround strategy is key • Process of strengthening these relationships to continue into the next financial year

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

FINANCIAL INSTITUTIONS AND INVESTMENT PARTNERS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Denel's recapitalisation • Advanced detailed discussions with lenders group to provide trade finance facilities that will significantly reduce operating losses • Major campaigns to the banks on Denel's guarantee • Liquidity challenges • Engagement to rebuild and strengthen relationships, get buy-in and support for the new strategy and turnaround plan • Future repositioning of Denel's divisions and products • Communicate the processes in place to strengthen governance, improve programme management, drive efficiencies and grow revenues. • Update on the findings of Denel's forensic investigations • Focus on project financing and requesting bank guarantees for major programmes without the need for back-to-back government guarantees • Denel's response and planning during the COVID-19 pandemic and lockdown	• The Chairman of the Denel Board, executive directors supported by non-executive Board directors and the Shareholder embarked on intense interactions and meetings with financial institutions and investment partners • Local road shows to the banks and investment community • International roadshows to the investor community • Annual general meeting and other investor meetings	• The appointment of new Executive member (Group CFO) presented the company with new opportunities to communicate its key messages and positively profile the company • Extensive engagements with banks, providing detailed feedback on the identified projects and progress on strategic initiatives are ongoing • Process of strengthening relationships that support the business towards sustainable growth is ongoing and will continue into the next financial year

STAKEHOLDER ENGAGEMENT REPORT APRIL 2019 – MARCH 2020

SHAREHOLDER GROUP

MEDIA ORGANISATIONS / JOURNALISTS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Engagement to report on the turnaround strategy milestones • Introduction and profiling of the new Executive members (Group CFO) • Liquidity challenges • Government's guarantees to Denel • Denel's response and planning during the COVID-19 pandemic and lockdown	• One-on-one meetings with journalists and editors • Media roundtable with Denel's leadership • Denel open days • Media interviews, statements and responses	• Strained relationship with reduced trust levels • Reduced trust and credibility in Denel voices • The appointment of a new Executive members (Group CFO) presented the company with new opportunities to communicate its key messages and positively profile the company • Process of strengthening relationships that support the business towards sustainable growth is ongoing and will continue into the next financial year

MATERIAL ISSUES

IDENTIFY

- Issues at divisional EXCO
- Group Board meetings
- Stakeholder engagements
- Risk management

PRIORITISE

- Based on risk and opportunies
- Materiality
- Impact issue will have on Denel

RESPOND

- Identify mitigation actions
- Implement actions that will manage material matters

REPORT AND MONITOR

- Report at regular Board meetings
- Monitor against Shareholder's Compact
- Monitor against performance targets

IDENTIFYING MATERIAL ISSUES

Denel designs, develops and offers defence and security solutions and services to the SANDF, the country's law enforcement agencies and the growing and highly competitive export markets. Additionally, Denel is strategic and critical to the state's objectives of balanced economic development. Denel is part of the global supply chain and conducts its business through a variety of suppliers, other business partners locally and access to export markets. The company depends on complex logistics to receive components and subsystems and to deliver to its customers. Defence contracts are generally complex and of a long-term nature and involve high working capital and continuously changing technology.

Political, economic, social, technological, legal and environmental events impact on Denel's risk profile. Denel is subject to scrutiny by regulators and the public both locally and globally regarding responsible manufacturing, the transfer of arms and ethical business conduct. Consequently, stakeholders place a high premium on sound corporate governance and regard effective risk management as a key strategic driver.

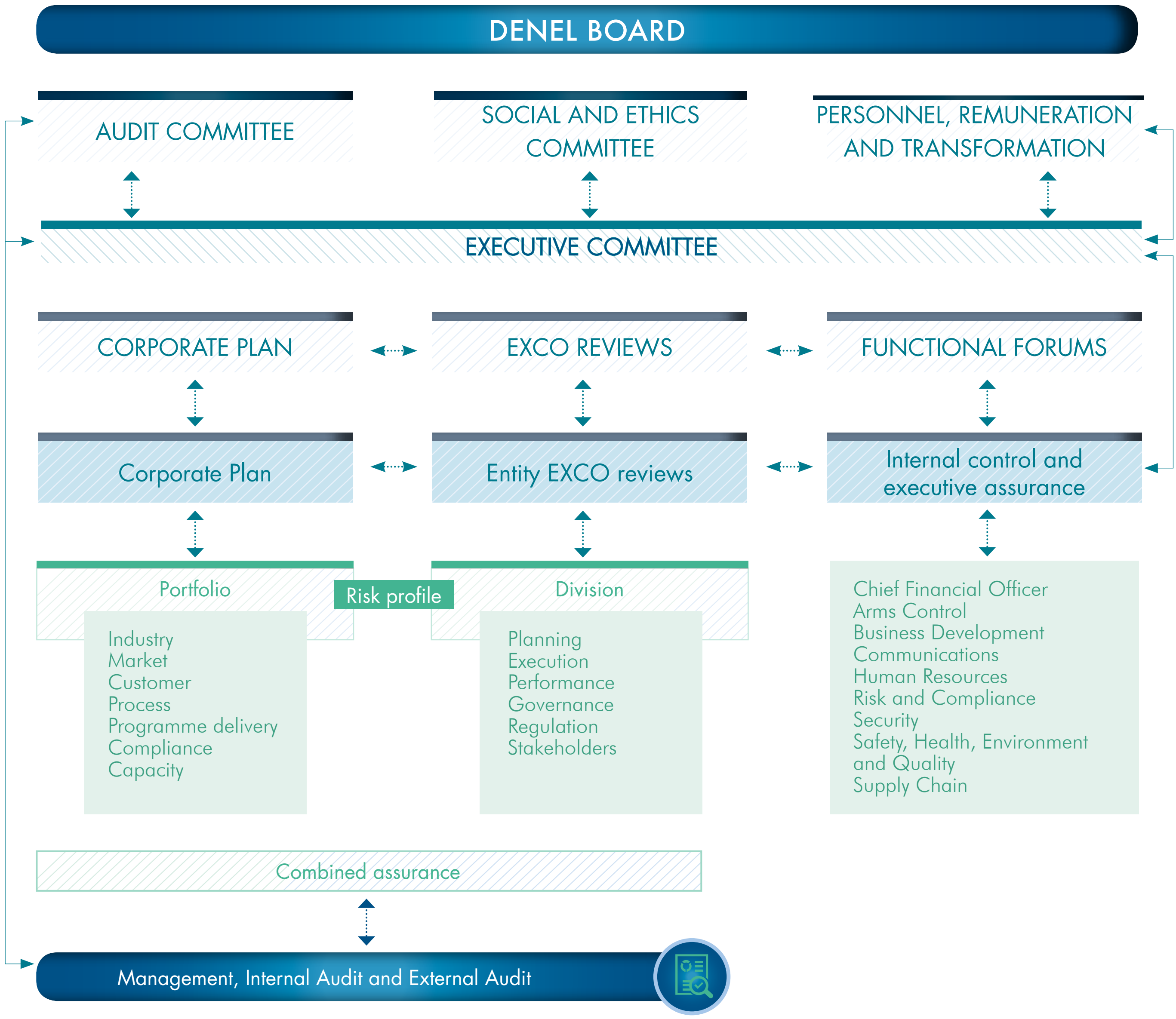
Denel has adopted an enterprise-wide risk management approach. Denel's risk management framework is a combination of the principles contained in the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and ISO31000 principles and is aligned to the nature of its business, architecture and culture.

Denel has also adopted ISO9001 and ISO14001, OHSAS18001 on which quality, occupational health, safety and environmental management systems are based as part of the risk management system. Information technology (IT) risks are addressed through the IT governance framework and policy, and managed at business unit level.

Financial and operational controls, governance and internal audit processes are integrated to cover the full spectrum of risk and risk mitigation measures that the organisation faces.

The Board is ultimately responsible for risk governance and has assigned risk oversight to the Risk Committee, which is supported by the Audit Committee, Social and Ethics, Finance and Investment and Personal, Recruitment and Transformation committees on pertinent issues. This ensures an integrated approach to risk oversight based on enterprise-wide risk management, and a focused approach on integrity to preserve ethical business conduct. This assures effective and efficient capital allocation and investment in projects that deliver returns for the shareholders, efficient human capital that builds and maintains critical skills and a motivated workforce, and provides assurance regarding the effectiveness of internal control.

EXCO is responsible to the Board for the system of risk management, including approving policy and the strategic risks of the organisation.



RISK IDENTIFICATION AND ASSESSMENT

Denel continuously identifies and assesses risk through an integrated end-to-end approach across all levels of the organisation. Denel adopts a combination of a top-down and bottom-up approach to risk assessment and uses business units and the Group EXCO's risk assessments to develop the group's strategic risk profile. Biannually, EXCO's undertakes a rigorous strategic planning process, which includes the identification of risks and opportunities. The process includes the review of operational, human resources, products, business development, order cover, balance sheet, business performance and major events during the strategic review period.

Risk assessment is also triggered by internal, external, local and global events that have affected Denel or the industry. Denel assesses all material events, activities and decisions that may impact on its objectives. Denel has put processes in place to assess risk and implement mitigation measures with regard to acquisitions and disposals, new opportunities and regulatory changes. Denel promulgated a specific policy to ensure effective country risk management to mitigate credit risks as part of financial risk management, which is discussed at length on page 202.

PRIORITISE AND RESPOND

A comprehensive risk register is developed with risks quantified according to probability and impact, mitigation measures and the allocated risk owners. Risks are broadly categorised according to financial, programme, human resources, safety, environmental, technology and other classes. An update is tabled at the Risk Committee for discussion and review. A summary of the top significant risks is given below.

NO	RISK NAME	DESCRIPTION	CONTROLS
1	Competing stakeholder expectations and interests	Competing objectives of critical stakeholders regarding the strategy of the company	Strategic stakeholder engagement Regular meetings of set committees to articulate strategy and the status of turnaround actions and to promote alignment regarding Denel's strategy
2	Solvency and liquidity	Weak balance sheet and cash constraint to fund operations and growth	Domestic Medium-term Note Programme Funding Strategy: Shareholder's financial assistance (government guarantees) Short-term funding from lenders Restructuring and disposals
3	Programme delivery slippages and cost overruns	Development, manufacturing to cost with the set timeframe	Executive Programme performance reviews Special programme oversight reviews Board programme delivery oversight Programme performance assurance
4	COVID-19 business interruptions	The adverse impact of COVID-19 on employees and Denel's operations	Implementation of COVID-19 health and safety programme based on government directions Continuous evaluation of budgets to gauge and mitigate COVID-19's impact on financial performance Efforts to speed up the issuing of export/import to improve cash as well as contracting permits to improve revenue Implementing recovery plans, including supply chain vulnerabilities: the risk of critical supplier failures
5	Loss of core skills and knowledge	Loss of key human, resources and institutional knowledge	Organisational redesign and role redefinition Skills retention programme and prioritisations Talent management
6	Supply chain	Single/sole source suppliers, material requirements planning and incurrence of unauthorised, irregular and fruitless and wasteful expenditure	Implement just-in-time/lean principles when ordering stock with relevant reporting on stock availability to ensure project success Training of supply chain staff and business stakeholders. Combination of training, evaluation, change management and consequence management is envisaged to change behaviour Analysis of single/sole source suppliers and strategies to be put in place to reduce reliance on these and to increase opportunities for new entrants and competitive costing.
7	Loss of public and market confidence reputation	Loss of public and market confidence reputation	Strengthening governance and internal controls to gain public confidence Improving communication with stakeholders Implementing fraud and corruption prevention strategy Stringent oversight of performance and compliance

NO	RISK NAME	DESCRIPTION	CONTROLS
8	Changing regulatory environment	Failure to comply with legal and regulatory requirements resulting in punitive action and bad reputation	Monitoring changes in the legal and regulatory environment Maintenance of registers for critical laws and regulations Clear and structured processes for approval of material transactions Maintaining open communication channels with relevant regulatory bodies
9	Security of assets and information	Theft, vandalism or unauthorised use of assets wrongful exploitation of proprietary information	Security vetting Information and communication technology (ICT) security measures Physical measures, access and asset control Improving information security
10	Fraud and corruption	Criminal deception for financial or personal gain and /or giving or accepting bribes and reputational damage	Whistle-blowing programme Employee ethics programme Management of personal interests Anti-bribery and corruption prevention programme Anti-fraud and ethics awareness programme

MITIGATION OF THE MOST SIGNIFICANT RISKS

Material issues that could affect Denel's ability to deliver on its strategy receive priority attention. Denel follows a process that seeks to manage and reduce risk for internal financial and operational advantages and a competitive advantage in every area of the organisation. Risk mitigation strategies are integrated into strategic and operational activities, processes and policies of the group.

Denel recognises the complexities of operating in a contract environment and has implemented processes to manage programme risks throughout the contract life cycle of pre-proposal, proposal, design, development and execution at each business unit. The process includes high levels of project risk management.

Denel recognises the complexities of operating in a contract environment and has implemented processes to manage programme risks throughout the contract life cycle of pre-proposal, proposal, design, development and execution at each business unit. The process includes in-depth project risk management.

Business-specific risks are strategically integrated within business units to ensure mitigation threats at source. During the year under review, Denel placed emphasis on bid reviews and interrogation of assumptions, profitability, cash flow, foreign exchange rate, cost of borrowing, return on investment and pursuing suitable funding options. The objectives are to strengthen the balance sheet and reduce the cost of capital. Supply chain and programme delivery inefficiencies have a direct impact on operational efficiency, profitability and cash availability in the company. Measures have been put in place to improve efficiencies in the supply chains to ensure that the procurement of goods and services is cost effective and timely. Denel will continue to assess and identify opportunities to improve efficiencies across the value chain. Appropriate dashboards have been implemented to monitor programme delivery with more emphasis on programme cost management, delivery schedules, quality control and inventory management.


DENEL
DENEL TECHNICAL ACADEMY


DENEL
DENEL TECHNICAL ACADEMY

EXTERNAL ENVIRONMENT AND STRATEGY

PART 4

EXTERNAL ENVIRONMENT AND STRATEGY

LOCAL ENVIRONMENT

Denel has always maintained that the primary purpose for establishing the company was to support the activities of the local customer, which is the SANDF. The local customer is our most important partner constitutes 58% (2018/19: 49%) of the revenue. The local client base assists in key product developments, which Denel leverages when pursuing foreign business initiatives. The current defence and security budget is 1.1 % of the gross domestic product (GDP), which is low compared to international norms, sitting at around 2,5%. While the relatively low defence spend places pressure on Denel to find export clients to maintain capability and be sustainable, it provides a base load, together with investment in new technologies. The technology is important when pursuing export business. The export business provides critical mass to sustain strategic and sovereign defence capabilities. The strategic alignment between the DoD/SANDF and Denel ensures that the approved Defence Review Policy (2015) implementation achieves its stated objectives. The local defence budget has been continuously cut and many fewer projects and defence activities are available in the local market. The South African defence markets have therefore been depressed for a number of years, with the last major capital expenditure projects being for patrol vessels, which are also slowly coming to an end. No major exciting capex projects are on the immediate horizon.

EXPORT ENVIRONMENT

Denel, as well as the rest of the South African defence industry, increasingly has to put its focus and efforts on winning export contracts for its continued survival. Denel and the rest of the SADI have always fielded a niche market where customers would not buy from the European, USA or Israeli suppliers. Denel, however, has too much reliance on the Middle East countries and should further expand and spread the risk by expanding to the Far East, South Asian and Latin American markets.

Stronger competition with European and USA companies should be expected in markets traditionally serviced by Denel due to contraction in defence spending in their home markets. It is further expected that customers will shift their focus from procuring systems with the highest possible performance to ones that are more affordable. In addition, lower oil prices are likely to affect the cash reserves of some countries and their spending patterns on defence going forward.

Despite these factors, Denel is experiencing a strong demand for its products in the growth markets of Asia-Pacific and the Middle East. These markets are currently the main export customers for Denel's products. There are a number of new business opportunities expected to be concluded and executed in the short to medium term. South Africa is well positioned through its foreign relations in these regions. The existing political support from government and its agencies enjoyed by Denel facilitates business development in these markets.

Business opportunities on the African continent remain largely untapped due to ill-defined user requirements, funding constraints and other hindering dynamics, most of which are political. There are, however, gaps to fill and opportunities to pursue, specifically in the West-African region.

Denel is in good standing with the United Nations, which provides access to humanitarian and peace-keeping initiatives, with some contracts currently being executed. The Latin American region is still heavily invested in acquisitions of weapon systems and, despite defence cuts, still offers opportunities for Denel. The poor economic outlook for this region is, however, expected to further erode market opportunities.

> The global supplier base became an important value creation element to secure export business. To be successful in international markets requires localisation of capability and technology. Denel is well positioned with its networks through equity and strategic partnerships to take advantage of this trend.

STRATEGY

STRATEGIC PILLARS

Capital structure: Resolve and strengthen balance sheet weaknesses	Optimise supply chain and reduce costs to increase productivity and competitiveness	Order book: Establish new markets, rebuild existing relationships and foster stakeholder alignment	Exit non-core business and create strategic partnerships	Retain and rebuild core capabilities to focus position in the value chain

Implement **transformation of people management and processes** throughout the organisation

FOUNDATION - GOVERNANCE

KEY STRATEGIC INTERVENTIONS

- Complete **governance and compliance** improvements
- Develop **commercial/entrepreneurial** mindset
- **Strengthen balance sheet** and liquidity position
- **Retain core skills** and appoint **right calibre of leadership**
- Implement **supply chain optimisation programme** across Denel
- Secure **market access and generate cash** through strategic equity partnerships
- **Exit from loss-making and non-core businesses**
- **Improve efficiency** through focused programme management, cost-reduction management and properties/facilities optimisation

PERFORMANCE REVIEW

PART 5

GROUP CEO'S REPORT

Despite the challenges facing the defence and technology industries locally, Denel is committed to its efforts to transform the organisation into a sustainable defence and advanced manufacturing company.

The South African market, and the SANDF in particular, remains the most important market for Denel. The national defence market and SANDF's budget remains under extreme pressure with no immediate dramatic recovery expected. Other opportunities in the national security market and export opportunities are to be pursued in order to reach targets of a healthy order book. Denel has reviewed and identified the funding gap that remains in order to retain its sovereign and strategic capabilities.

Working with its stakeholders in the aerospace, maritime and defence industries, it endeavours to strengthen and restore the country's defence industry to its long-held position of excellence. By supporting the SANDF and capitalising on the global growth in demand for defence systems and products, Denel is confident that it will retain its position as a strategic national asset.

During the period under review, Denel responded to the imperatives posed by the economic, social and natural environment in which it operates in accordance with its commitment to sustainable development principles.

These principles are embedded in the group's corporate strategy and values, and are reflected in the financial and economic decisions made by the group. As such, it embraced the following values to navigate through the challenges it is experiencing:

- Integrity: We are honest, truthful and ethical. We will always act in Denel's best interests.
- Courage: We are willing to challenge and make difficult decisions, and to push through uncomfortable situations.
- Performance: We strive for excellence in all that we do.
- Accountability: We take ownership for our actions and behaviour.

Denel's management and staff are committed to practicing these values daily, as they present an opportunity to renew and focus on the task at hand.

STRATEGIC INTENT

The company's strategy is aligned to its purpose statement, which is to provide turnkey solutions of defence, security and related technology to its clients by designing, developing, integrating, testing and evaluating, and supporting artillery, armour-protected vehicles, missiles munitions, unmanned aerial vehicle systems, aircraft maintenance and aerostructures based on high-end technology, effectively and efficiently.

As part of Denel's turnaround strategy approved by the Board in 2018, the company embarked on a process to exit unprofitable, non-core businesses. This created the opportunity to acquire strategic equity partners, which will enable Denel to secure market access and generate cash, thereby restoring its financial sustainability. It is also engaging with interested parties for equity injections.

Key strategic interventions that formed part of the company's activities during the period under review therefore included the following:

- Complete governance and compliance improvements
- Develop a commercial/entrepreneurial mindset
- Strengthen the company's balance sheet and liquidity position
- Retain core skills and appoint the right calibre of leadership
- Implement a supply chain optimisation programme across Denel
- Secure market access and generate cash through strategic equity partnerships
- Exit from loss-making and non-core businesses
- Improve efficiency through focused programme management, cost reduction management and properties/facilities optimisation

STAKEHOLDER ENGAGEMENT

Denel has continued to place stakeholder engagement at the centre of its business and delivery model. This element of its operations is gaining increasing importance as Denel implements its turnaround strategy, and implements efforts to rebuild confidence among its clients and stakeholders.

Political, economic, social, technological, legal and environmental events impact on Denel's risk profile. It is subject to scrutiny by regulators and the public, both locally and globally, regarding responsible manufacturing, the transfer of arms and ethical business conduct. Consequently, stakeholders place a high premium on sound corporate governance and regard effective risk management as a key strategic driver.

RISK MANAGEMENT

Financial and operational controls, governance and internal audit processes were integrated to cover the full spectrum of risk and risk mitigation measures that the organisation faces. The most significant risks encountered during the period under review included the following:

- Competing stakeholder expectations and interests
- Solvency and liquidity (a weak balance sheet and cash constraints to fund operations and growth)
- Programme delivery slippages and cost overruns as a result of poor programme contracting and poor programme management
- Business interruptions brought about by the adverse impact of COVID-19 on employees and the company's operations
- Loss of core skills and knowledge through the loss of key leadership, resources and institutional knowledge
- Supply chain risks related to single/sole source suppliers, material requirements planning and the incurrence of unauthorised, irregular and fruitless and wasteful expenditure
- The loss of its public and market confidence reputation
- Continuously changing of and red-tape in the regulatory environment
- Physical and cyber security risks
- Fraud and corruption

Business-specific risks were strategically integrated within business units to ensure that risks are attended to at the source. During the period under review, Denel emphasised bid reviews and interrogating assumptions, profitability, cash flow, the foreign exchange rate, cost of borrowing, return on investment and pursuing suitable funding options.

The most important risk that has been threatening the sustainability of the organisation over recent years is the liquidity challenge it is experiencing. This has brought about the need to implement operational and structural reforms, including the securing of strategic equity partnerships in its businesses to secure markets and capital access, and technology development. In the process, Denel is positioning its divisions as stand-alone, client-centred businesses, while driving a strong focus on operational excellence and courageously rolling out a transitionary set of values.

Liquidity management forms the most important element of Denel's stabilisation strategy. As such, Denel continued to engage the Department of Defence to secure funding to protect its strategic and sovereign capabilities, and monitored its cash flow through the Finance and Investment Committee, Audit Committee and Board meetings, as well as meetings with National Treasury and the Department of Public Enterprises, as representative shareholder. Furthermore, ongoing engagement took place with Denel's lenders, and with creditors and suppliers on deferred payment plans.

FINANCIAL OVERVIEW AND FUNDING

The 2019/20 financial year proved to be another challenging year for Denel, with a total comprehensive loss of R1.962 billion for the year, compared to a loss of R1.469 billion (restated) in the previous year. This net loss can primarily be attributed to a delay in sales, an inefficient cost structure and poor programme execution. Denel has further been negatively impacted on by reduced margins due to labour under-recoveries as a result of lower operational activities and little to no production activity.

In August 2019, Denel received R1.8 billion in recapitalisation from its Shareholder. This was utilised to repay long-overdue creditors, settle debt and restart operations that had slowed down significantly due to suppliers requesting upfront payments under certain circumstances. Despite the recapitalisation, Denel's cash flows from operations remained negative at R811 million in delayed deliveries to customers due to poor contract and working capital management. However, taking various factors into account in the evaluation of the consolidated annual financial statements, including management's radical action plans and mitigating actions to improve Denel's performance and solvency position during the next 24 months, the directors are satisfied that Denel will continue to operate as a going concern, while it looks forward to assistance from its Shareholder in the identification and management of risks.

IMPLICATIONS OF THE COVID-19 PANDEMIC

Although the COVID-19 pandemic related to liquidity challenges that materialised after reporting period, divisions and subsidiaries of Denel concluded the financial year by assessing significant accounts that will likely be impacted on by the pandemic. Following South Africa's first recorded case of the disease in early March 2020, government declared a national disaster and the country went into a hard lockdown from 27 March 2020 to 16 April 2020. This was subsequently extended to 30 April 2020.

This hard lockdown meant that the whole country was shut down, inclusive of its borders, with the exception of certain essential services that could continue operating. This had a severe impact on the economy, and also further exacerbated Denel's liquidity situation. This impacted on production and also on the payment of salaries for the months of April to July 2020, with net salaries for the months of May to July not being fully paid to employees, and the payroll third-party statutory payments not being paid from April to July 2020.

OPERATIONAL HIGHLIGHTS

Denel's business divisions recorded several highlights during the year. Denel Dynamics' Cheetah counter rocket, artillery and mortar missile development work for the year was successfully completed with the conclusion of the System Requirements Review. In addition to the approval of the system and subsystem requirement specifications, a programme management baseline was also reviewed and accepted.

Denel Land Systems delivered the 100th modular turret for armoured vehicles used by the Malaysian armed forces in terms of a multi-million rand export contract. A thermal imager test and repair facility was inaugurated at Defence Services Sdn Bhd (DSSB) in Nilai, Malaysia. This is the first of its kind in Malaysia and was proudly made possible by Denel.

During the latter part of 2019, DVS signed a significant vehicle contract with a customer in the UAE for the manufacture of 33 RG31 vehicles with the potential for future orders.

APPRECIATION

I am grateful to the Shareholder for its continued support of Denel during this difficult time. The funding for recapitalisation should be seen as support for the quality of its turnaround strategy and a commitment to the future of a strategic asset.

I also wish to extend a word of appreciation to the Minister of Public Enterprises, Mr Pravin Gordhan, for his strategic guidance. Denel continues to value its close relationship with the Department of Public Enterprises, the Department of Defence and Military Veterans, the SANDF, Armscor and the wide range of stakeholders in the defence and technology sectors.

The Board of Denel, under the leadership of Ms Monhla Hlahla, has played a vital role in providing leadership to the company and its business units.

Finally, I recognise each and every staff member of the organisation. The fundamental and much-needed changes that are required to stabilise Denel would not be possible without the support of such a capable and loyal workforce.

Talib Sadik
Interim Group CEO

OPERATIONAL REVIEWS

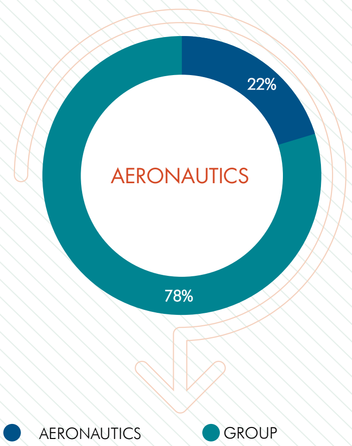
DENEL AERONAUTICS

- **Maintenance of current certifications and accreditations:** Despite difficult trading conditions, Denel Aeronautics was able to maintain current certifications and accreditations from various external bodies and regulators such as the International Standards Organistion (ISO) and the aerospace standard with Bureau Veritas International, Aircraft Maintenance Organisation approvals with the South African Civil Aviation Authority, environmental and occupational health and safety standards by the South African Bureau of Standards, aerostructure manufacturing standards with the National Aerospace and Defence Contractors Accreditation Programme (NADCAP) and aircraft and subsystem OEM accreditations with Airbus Helicopters, Lockheed Martin, Russian Helicopters and Safran Helicopter Engines.
- **Relationships with key customers:** Relationships with key customers, suppliers and other critical stakeholders was maintained to enable the execution of projects.
- **Project Dragon:** The return to service and sale of 12 Cheetah fighter aircraft to Draken International, USA, known as Project Dragon, reached its first millstone with the delivery of the first two aircraft to Draken International on 18 October 2019.
- **Exist and winding up of Denel Aerostructures:** As part of the exit and winding up of Denel Aerostructures SOC Ltd, the Ribs Spars and Sword work package was successfully transferred as part of the transfer of 400 million work packages in September 2019, along with two work packages for other customers. With the winding up of Denel Aerostructures, it was contemplated that 230 employees would be retrenched. Through redeployments within the Denel Group, this number was reduced to 177 retrenchments, 58 of these being voluntary retrenchments.
- **Armscor product and supply contracts:** The sustainment of the C130, Oryx and Rooivalk was enabled as contracted through the product supply support contracts with Armscor for the South African Air Force with airworthiness assurance.
- **Denel Training Academy:** The DTA completed training for the Cameroon Air Force with 117 learners successfully completing their aircraft trade studies. Furthermore, 38 learners from North West were successfully handed over to their sponsor, the North West Provincial Government, to complete on-the-Job training after completion of their initial theoretical training. The last 90 students co-sponsored by Denel and the National Skills Fund will complete their on-the- Job training during 2020 and be prepared for their trade testing by the DTA.

NUMBER OF EMPLOYEES

805

	Aeronautics		
	2020	2019	Var
	R'm	R'm	%
Revenue	770	720	7%
Export	146	125	-16%
Earnings before interest and taxation	-61	17	-452%

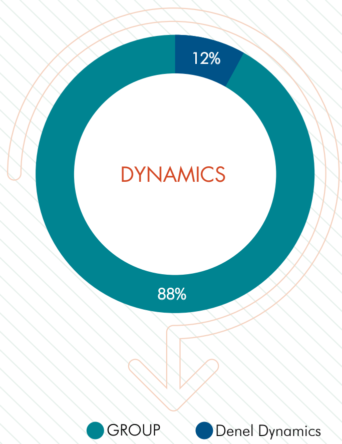


DENEL DYNAMICS

- **A-Darter:** The A-Darter missiles successfully completed the missile qualification and certification for its leading fifth-generation imaging infrared short-range air-to-air Missile.
- **Cheetah:** The Cheetah counter rocket, artillery and mortar missile development work for the year was successfully completed with the conclusion of the System Requirements Review. In addition to the approval of the system and subsystem requirement specifications, a programme management baseline was also reviewed and accepted.
- **Seeker 400:** The unmanned aircraft system achieved its interim military type certification and is currently in operational test and evaluation with the end user.

NUMBER OF EMPLOYEES
535

	Denel Dynamics		
	2020	2019	Var
	R'm	R'm	%
Revenue	350	358	-2%
Export	161	136	19%
Earnings before interest and taxation	-272	-480	-43%

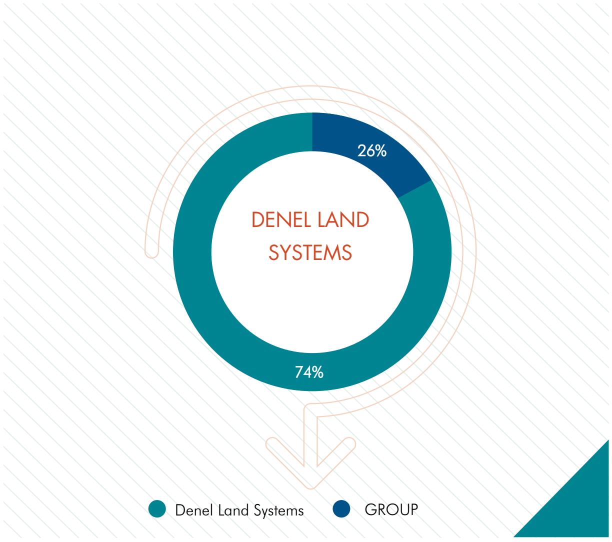


DENEL LAND SYSTEMS

- **The Hoefyster Integrated Programme Team:** This team, consisting of Armscor, the South African Army and DLS has concluded the section variant product baseline with an accepted functional configuration audit.
- **DLS Software Qualification Team:** This team successfully developed and qualified software in the Battle Management Computer for the section variant of the Hoefyster Programme to comply with the objectives of RTCA/DO178B Design Assurance Level C. Armscor audited this software with no findings raised.
- **Modular turret for armoured vehicles:** DLS delivered the 100th modular turret for armoured vehicles used by the Malaysian armed forces in terms of a multi-million rand export contract.
- **Thermal Imager Test and Repair Facility:** A Thermal Imager Test and Repair Facility was inaugurated at Defence Services Sdn Bhd (DSSB) in Nilai, Malaysia, This is the first of its kind in Malaysia and was proudly made possible by Denel
- **Eastern Border Demining Project:** This has been a unique project to be conducted in such manner in Turkey. The project started in 2016 and was completed in 2019, well before the anticipated time. More than 45 000 landmines were lifted from not less than 39 minefields under difficult circumstances, ranging from the terrain itself, the government and the client. Only three non-fatal incidents were recorded in the four years of operations under the said circumstances. This project proved to make history in the mine action space, where operations of this calibre were undertaken. Mechem once again proved its unmatched character and attitude in Turkey and Europe at large.

NUMBER OF EMPLOYEES
507

	Denel Land Systems		
	2020	2019	Var
	R'm	R'm	%
Revenue	876	1 597	-41%
Export	589	1 020	-42%
Earnings before interest and taxation	-265	-293	-10%

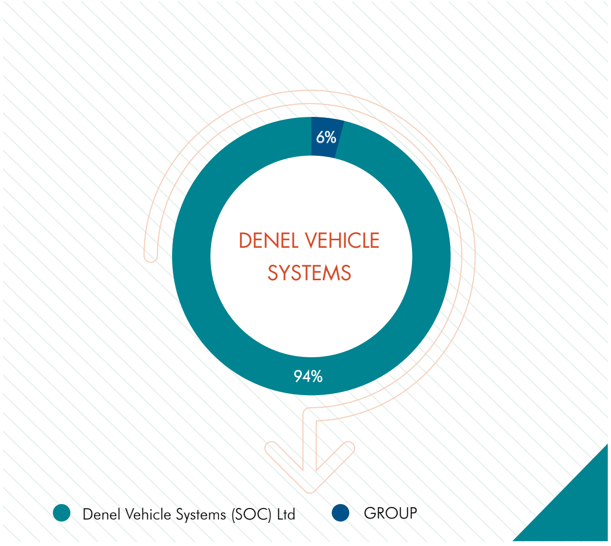


DENEL VEHICLE SYSTEMS (PTY) LTD

- **Delivery of RG12 Mk6 prototype:** The RG12 Mk6 prototype vehicle was delivered to the customer in the UAE, who was very impressed with the vehicle. This could potentially unlock future opportunities.
- **Manufacturing contract for RG31 vehicles:** During the latter part of 2019, DVS signed a significant vehicle contract with a customer in the UAE for the manufacture of 33 RG31 vehicles with the potential for future orders.
- **Denel Gear Ratio:** This business unit has been successfully qualified to be a supplier of pinions through a First Article Inspection process for Transnet's 1 064 locomotives project. Denel Gear Ratio continues to experience substantial reduction in spares and repair sales, contributing to poor delivery performance to critical customers. This has subsequently created the risk of losing this entire business stream to competitors.
- **In-flight test services:** In-flight test services were provided to the SANDF in terms of a multi-year contract with the Department of Defence and Military Veterans. DVS successfully supported all the required projects of the Department of Defence as a knowledgeable buyer and user of equipment.

NUMBER OF EMPLOYEES
392

	Denel Vehicle Systems		
	2020	2019	Var
	R'm	R'm	%
Revenue	176	355	-50%
Export	106	199	-47%
Earnings before interest and taxation	-266	-236	13%

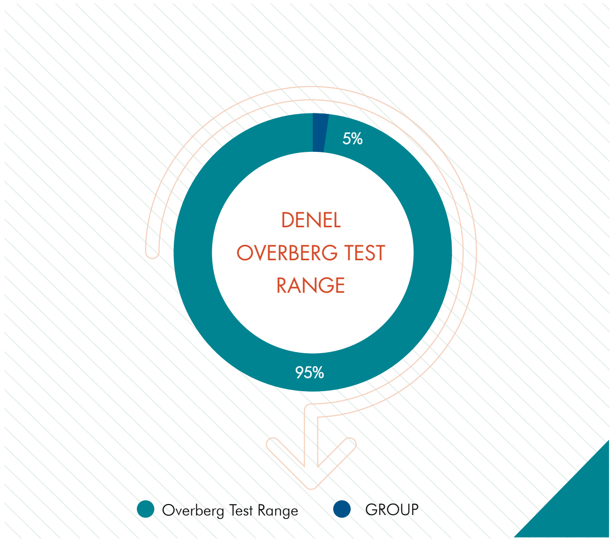


DENEL OVERBERG TEST RANGE

- **In-flight test services:** In-flight test services were provided to the SANDF in terms of a multi-year contract with the Department of Defence and Military Veterans. OTR successfully supported all the required projects of the Department of Defence as a knowledgeable buyer and user of equipment.
- **In-service and development tests:** OTR provided essential support to DLS and Rheinmetall Denel Munitions for various in-service and development tests.
- **Singapore Air Force:** OTR conducted a test campaign for the Singapore Air Force, which is an established international client of OTR.
- **Marketing**: OTR hosted a very successful "show and tell" event on the current test range's capability updates and demonstrated the capability with a real test to various of its stakeholders.
- **Overseas visit:** OTR visited Europe to renew relationships with established clients and to discuss future test requirements with new and current clients.
- **Accreditation:** OTR maintains the ISO9001:2015 standard. This ensures that it complies with the quality standard and ensures clients' satisfaction at all times.
- **Hangar support:** OTR assisted the Overberg Air Force Base with hangar support for its helicopters during the upgrade of the facility on the base.
- **Power back-up:** The OTR's main generator power back-up system feeds the Overberg Air Force Base as well, and was serviced to improve reliability during Eskom loadshedding periods.
- **Software upgrades:** The data processing software system was upgraded and accepted by using OTR's internal expertise and capabilities.
- **Instrumentation and infrastructure upgrades**: Various upgrades and renewals were done to OTR's instrumentation and infrastructure:
  - Procurement and installation of a pressure waveguide dehydrator at the tracking radar
  - Procurement of an intrinsically safe multi-meter for the explosives area
  - Refurbishment of optic lenses for various instrumentation systems
  - Procurement of new standard time code generation units
  - Procurement of a new forklift for the explosives area.

NUMBER OF EMPLOYEES
139

	Overberg Test Range		
	2020	2019	Var
	R'm	R'm	%
Revenue	132	94	41%
Export	53	14	285%
Earnings before interest and taxation	28	3	926%

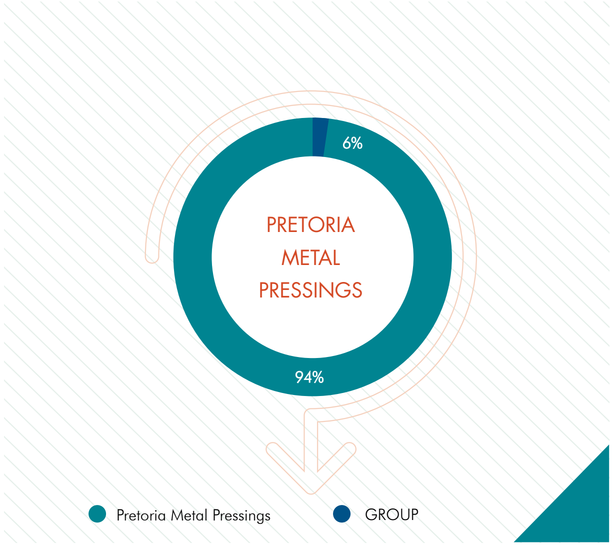


PRETORIA METAL PRESSINGS

- **Multipurpose Ammo Project:** The 20 x 139 Multipurpose Ammo Project, conducted in collaboration with Nammo, has been successfully concluded for SANDF and is now a qualified PMP product.
- **Product and process qualification:** The product and process qualification of the 20 x 139 mm multipurpose rounds was completed with the participation of Armscor, the SAAF and SANDF's Chief Technology Office in Pretoria. This is a joint milestone for both PMP and Nammo as it was the first PMP/Nammo collaboration where 6 053 20 x 139 mm multipurpose rounds were delivered to the SANDF in March 2020. A follow-up order for 5 000 rounds was successfully tendered for and is scheduled for delivery before March 2021.

NUMBER OF EMPLOYEES
783

	Pretoria Metal Pressings		
	2020	2019	Var
	R'm	R'm	%
Revenue	179	225	-20%
Export	65	71	-8%
Earnings before interest and taxation	-224	-213	-5%



FINANCE REVIEW

Net loss
R1.9 bn

Operating loss
R1.5 bn

Strong order book of
R15 bn

Net Finance cost
R576 m

Share of associates profits
R62 m

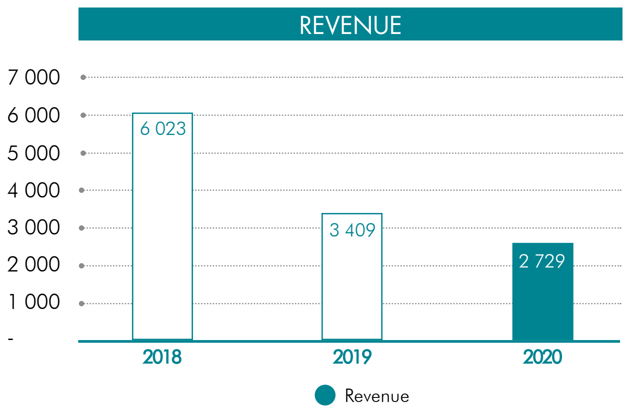
Debt to equity
-1.36:1

OVERVIEW

Group revenue reduced by 20% to R2.72 bn (2018/19: R3.40 bn), driven by liquidity constraints, as Denel battled with low funds to meet all its operational requirements in during the year. This impacted on the payment of suppliers, therefore on time deliveries to customers. Although the recapitalisation received on 31 August 2019 boosted liquidity and the ability to deliver to clients, it also came with the following conditions:

- Denel must be tax compliant by ensuring that where taxes have been deducted from employees, these taxes are paid over to the South African Revenue Services (SARS);
- Critical suppliers are paid to enable the restart of operations;
- Denel should repay the bank loans that had been provided under the R1 bn government guarantee.

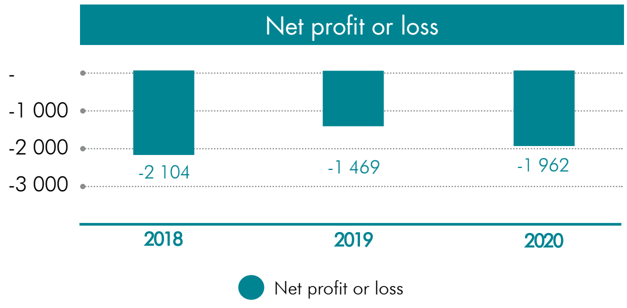
While Denel met its statutory commitments and the conditions, the amount was not enough to achieve the previous year's revenue levels and targets set for 2019/20. This has affected all divisions within the group, except for the Overberg Test Range, which has managed to maintain its revenue year on year.



The operating loss of R1.5 bn was mainly driven by the lower revenue-generating operating activities, leading to an increase in labour under-recoveries and forex losses on exports.

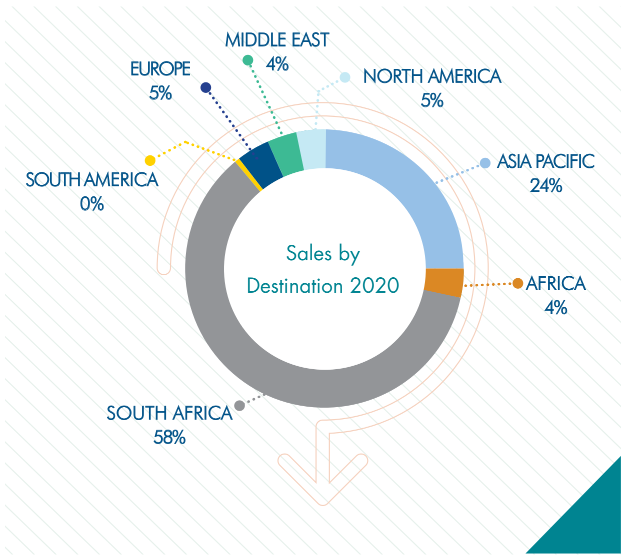
Net financing costs remained high at R576 m (2018/19: R618 m restated) as Denel continues to rely on debt to finance its operational costs. In compliance with IFRS15, the finance cost also includes the significant financing component amount from advance payments received from customers of R226 m (2018/19: R248 m).

The net loss of R1.9 bn is R493 m higher than the previous year, driven primarily by the decline in revenue, and increase in labour under-recoveries as operational activities declined during the year. There was an increase in financing costs due to the short-term nature of the capital structure. The net loss was further impacted on by an 85% reduction in profits from associates as Rheinmetal Denel Munition (Pty)Ltd posted a R227 m net loss before tax due to a reduction in revenues and operational accidents.

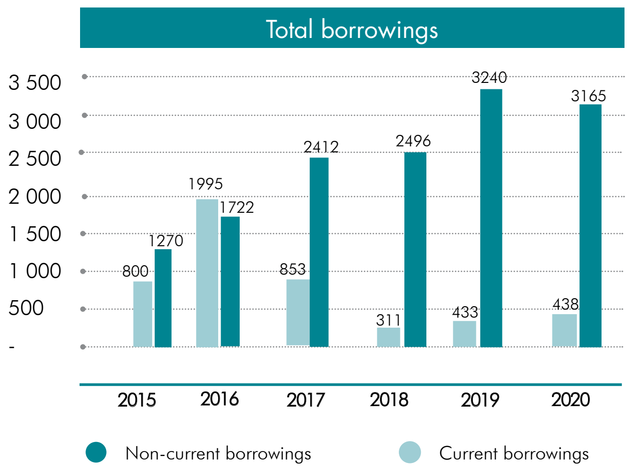


Total assets have decreased to R8.5 bn (2018/19: R8.7 bn), driven mainly by the decrease in inventory R2.1 bn (2018/19: R2.5 bn), as well a decrease in contract assets R765 m (2018/19: R953 m). This was primarily due to deliveries to clients and the correction of prior-period errors.

The total liabilities have decreased by R616 m to R10.8 bn (2018/19: R11.4 bn). The decrease was driven by the decrease in prepayments received as deliveries were made to customers and provisions were released. Included in the prior year was a provision for exiting the Denel Aerostructures Airbus contract, which has been actioned in the current year.



Denel's loans and borrowings are fully guaranteed by the Government of South Africa, who bears the risk of default in the repayment of this debt. The borrowings profile was made up primarily of all current debt as the guaranteed debt matured in September 2020. As at 31 March 2019/20, Denel was insolvent by R2.3 bn. This was driven by the losses incurred since 2017/18. On 31 August 2019, the Shareholder approved and paid to Denel R1.8 bn in recapitalisation funds to re-stabilise the business and improve the solvency position. This funding injection was utilised to restart operations, pay overdue taxes and debt financing costs, and implement strategic actions in the turnaround plan.



DISCLAIMER AUDIT OPINION

In the current financial year, the Auditor-General has issued a disclaimer audit opinion based on the matters that Denel had not been able to sufficiently resolve with respect to the 2017/18 and the 2018/19 opinions and additional findings with respect to 2019/20 as detailed in the Auditors Report. During the current financial year, management implemented a project in which the new accounting standards have been implemented in a uniform manner throughout the group and it has updated all financial records to ensure adherence to the standards. In some instances, management did not agree with the auditors on judgements made in implementing IFRS 15. This has, in the main, contributed to the disclaimer audit opinion as a number of related financial statement accounts also impact on the revenue amounts determined by management as per the contracts Denel has with its customers. Furthermore, at year-end, due to the significant number of prior-period errors that required correction to each monthly reporting period, the consolidated financial reporting tool became unstable and, although mitigating steps were taken to prepare the annual financial statements, these were inadequate to completely deal with the full impact on the group's consolidation.

In resolving the matter Denel has considered various key actions to improve the audit opinion, including the following:

- Implementing a new reporting tool in order to ensure accurate and complete compilation of the annual financial statements.
- Identifying key appointments of relevant competent staff in finance with the relevant experience and expertise.
- Further engagements with the auditors in order to deal with the areas of disagreement with management, particularly in the areas where management has the discretion to apply judgement based on their knowledge of the business, the industry and history.
- Agreement on what further improvements the auditors require on Denel's business process documentation to enable the auditors to audit its systems.

BUSINESS OUTLOOK

Denel continues to provide a strong and innovative technology base to provide an independent defence industrial capability and supports the mandate of a modern, balanced and technologically advanced SANDF that is required to protect the economic growth and security of the Republic of South Africa.

The global defence industry is expected to decline as the world economy deals with the impact of the COVID-19 pandemic. The full impact is not yet fully appreciated; however, we expect a further decline in the defence budget as some countries realign their available resources.

Furthermore, the stagnant domestic defence budget (which has declined from 1.5% of GDP in 2013 to less than 1% of GDP currently), including the discontinuation of the Special Defence Account from the 2020/21 financial year, means that Denel and the SADI have to look increasingly outwards for growth. Denel's position is supported by its substantial order book of circa R13 bn. The business focus going forward includes the implementation of the turnaround strategy, sourcing funding and improving operational performance.

The turnaround plan was developed to effectively respond to these realities and includes a solid focus on:

- Growing the order book of the business and finding new revenue streams.
- Further reducing the cost base to be aligned with anticipated business volumes.
- Concluding strategic equity partners in terms of a defined process as required by the Shareholder to increase access to technology, markets and capital.
- Selling off the remaining non-core businesses.
- Reducing debt to normalise the capital structure of the company and strengthen its balance sheet.

HOW DENEL IS GOVERNED

PART 6

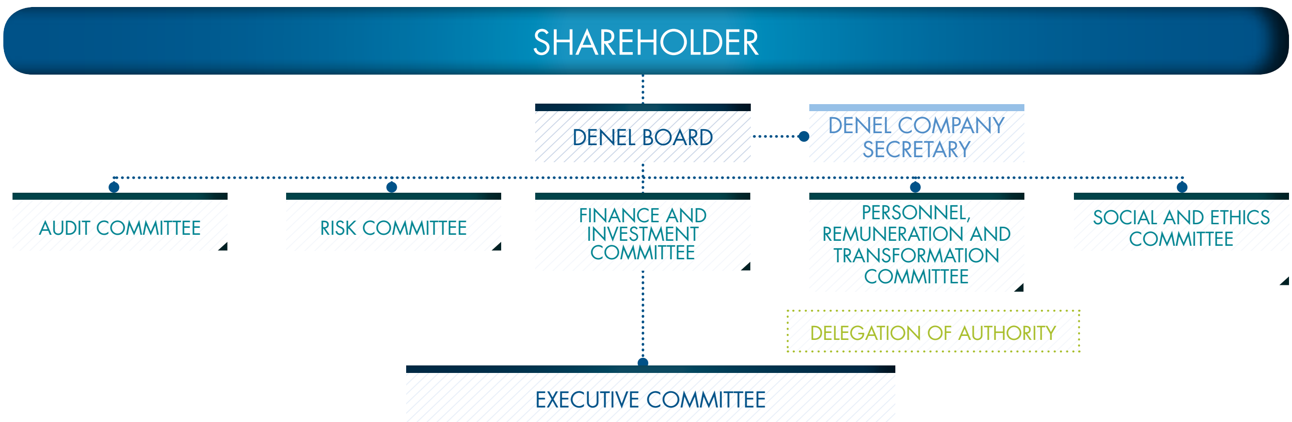
HOW WE ARE GOVERNED

As a state-owned company (SOC), Denel's sole shareholder is the South African government. The Shareholder representative, the Minister of Public Enterprises, appoints a Board of Directors to oversee the functioning of the company's executive management. The company is, in essence, a group comprising business units and divisions, as well as associated companies in which Denel has shareholding of varying degrees.

The Board commits itself to apply and enforce applicable corporate governance principles. It further recognises that sound corporate governance enhances the long-term sustainability of the company and provides assurance to its stakeholders that the company is well managed. Risk management and internal control systems are in place, which are designed in accordance with best practice and in compliance with the recommended principles contained in the King Report on Governance (King IV report), as well as the statutory requirements contained in the Companies Act, No. 71 of 2008 (Companies Act), as amended, the Public Finance Management Act, No. 1 of 1999 as amended by. The Public Finance Management Amendment Act, No. 29 of 1999 (PFMA) and the National Treasury Regulations.

The Board consists of the following committees:

- Audit Committee
- Risk Committee
- Finance and Investment Committee
- Personnel, Remuneration and Transformation Committee
- Social and Ethics Committee



DENEL HAS THE FOLLOWING FORUMS SUPPORTING THE BUSINESS:

- CFO Forum
- Supply Chain Forum
- Risk and Compliance Forum
- HR Forum
- Security Forum
- Legal Forum
- Arms Control Forum
- SHEQ Forum
- Transformation Forum
- Group Communications Forum
- Business Development Council

Governance principles and the main duties of the Board, under the leadership of the chairperson, executive and non-executive directors, including the Group Chief Executive Officer (GCEO) and Group Chief Financial Officer (GCFO), are clearly documented in the Board Charter.

Denel's Board Charter includes a schedule of matters reserved for the Board and the terms of reference of the respective board committees. The governance framework was developed to meet the group's strategic objectives and compliance requirements.

At the same time, it balances the interests of stakeholders, and minimises and avoids conflicts of interest, while practicing good corporate behaviour. The Board further delegated management accountability to the company's GCEO through the Delegation of Authority Policy and performance contract.

As a state-owned company, the company enters into an annual Shareholder's Compact with the Government of South Africa, represented by the Minister of Public Enterprises. This contract sets out annual key performance company deliverables that cover, but are not to limited social and economic drivers.

Although each of the group's subsidiary companies has a separate board of directors, the Denel Board and its committees oversee all significant aspects and transactions of the subsidiaries. The subsidiaries are also governed by the limits of authority set by the Board in the Delegation of Authority.

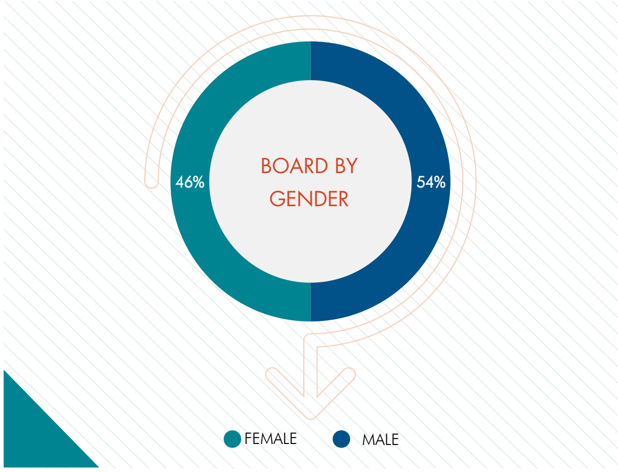
The Board plays a critical role in strategic planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie Denel's values, culture and processes. The group is managed in an efficient, accountable, transparent and ethical manner. This ethos is embedded in all the group's activities and, thus, Denel's governance framework goes beyond mere compliance with legislation.

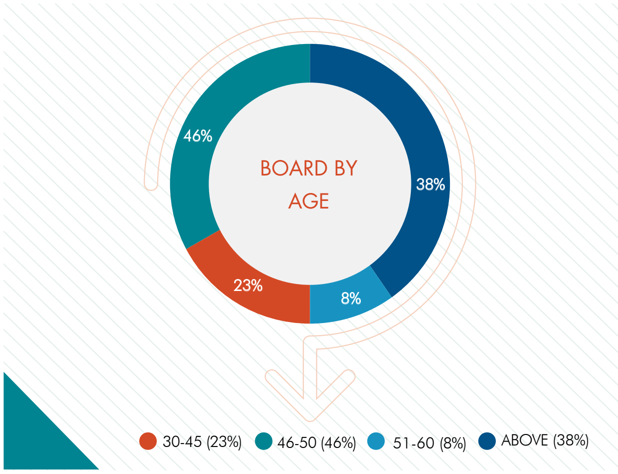
RESPONSIBILITY AND ACCOUNTABILITY

The Denel Board provides leadership and strategic oversight, and specifically oversees the internal control environment to sustain value for the company's shareholder and stakeholders. The Board ensures adherence to principles of good governance and accountability as espoused in its Board Charter and the King IV report. All the members of the Board are individually and collectively aware of their responsibilities to the group's stakeholders and each director brings experience, independence and judgment.

COMPOSITION OF THE BOARD

The Denel group has a unitary Board, comprising two *ex-officio* directors, the GCEO and the GCFO, as well as twelve independent non-executive directors. The company supports the principles of gender diversity at Board level. Collectively, the Board believes the current mix of knowledge, skill and experience meets the requirements to lead the company effectively.





APPOINTMENT AND RETIREMENT OF DIRECTORS

In terms of Denel's Memorandum of Incorporation (MOI), the Shareholder appoints the chairperson, GCEO and non-executive directors. The remaining *ex-officio* director (the GCFO) is appointed by the Board with the approval of the Shareholder.

Denel's Shareholder reviews the composition of the Board on an annual basis to ensure the rotation of directors at appropriate intervals and for the Board to remain dynamic in its thinking and abilities. The term of office for the non-executive directors is a period of three years subject to annual review and confirmation by the Shareholder at the Annual General Meeting (AGM). While retiring non-executive directors are eligible for re-appointment, director retirement is staggered to ensure continuity. The *ex-officio* directors comprise the GCEO and GCFO, who are appointed on fixed-term contracts.

The following directors have resigned or been removed during the year:

- Previous CFO

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

Denel's executives have contracts of employment with the company that are subject to Denel's conditions of service. Non-executive directors have their appointments formalised through a letter of appointment from the Shareholder. The appointment letters indicate the terms of office of the non-executive directors, legislation governing their appointment, as well as information pertaining to their remuneration.

The following directors were appointed during the year:

- Carmen Le Grange

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

It is incumbent upon the Board to act in the best interest of the company at all times, as guided by the King IV report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is considered at every Board meeting and evaluated annually as part of the Board's effectiveness review. This process creates value for the group and its stakeholders and ensures greater accountability. To ensure that governance best practice is applied, the Company Secretary performed a Board effectiveness review subsequent to the financial year end. The following areas were identified for improvement:

- Additional skills set in engineering, the defence industry, commercial, risk management, IT and accounting (preferably a Chartered Accountant) should be present at board level
- Setting an appropriate executive remuneration philosophy/policy linked to the key drivers of the business
- Implementing adequate succession plans for key members of the executive team
- Monitoring IT governance in the company, either itself or through a committee
- Information is to be presented in a way that leads to useful discussions and informed decisions at Board level
- Strategy implementation, strengthening of the capital structure and improving financial performance

MANAGING CONFLICT OF INTEREST

The principle of the effective management of conflicts of interest is paramount to limit risk and ensure transparency. Denel's Board members declare their interests at each Board and Board Committee meeting regarding any agenda item to prevent a director's personal interests taking precedence over those of the company. Directors' interests are declared by the individual directors in a register that is presented to Denel's shareholder at every AGM for consideration. Moreover, the conflict of interest schedule has been enhanced significantly. Directors who have personal interests in a matter under discussion disclose their interests and recuse themselves from the meeting.

For the period under assessment, no such conflict of interest was declared by Denel's directors regarding agenda items tabled at either the Board or Board Committee meetings. A similar practice applies to all employees of the group.

BOARD INDUCTION AND SHARING OF INFORMATION

Given that Denel operates in a highly technical environment, a comprehensive induction for new directors assists them in acquiring a greater understanding of Denel's business operations, its range of products and services, as well as the way these integrate into defence systems. The Board needs to appreciate the specific legislative framework applicable to the group as a defence manufacturer, as well as the business risks, governance processes and delegation of authority. Directors are continuously briefed on relevant new legislation and regulations. This year, the Board was updated on the principles of the King IV report on corporate governance by Adv Annemarie van der Merwe, a member of the King Committee. The Board Charter and terms of reference of Board committees were reviewed and revised to align them with the principles of King IV and subsequent to changes in the functions of some of the Board committees, and approved by the Board. Directors attended several defence exhibitions to further their knowledge of the defence industry.

The directors met with the different business unit executives. Quarterly reports were circulated to directors for their approval to keep them abreast of developments during and outside of scheduled Board meetings. Attendance at some of the defence exhibitions in which Denel participates allows directors to have a first-hand experience of the global defence market, where the group's products and services compete with the best on offer.

GROUP COMPANY SECRETARY

The Group Company Secretary is responsible for developing systems and processes to enable the Board to discharge its specific functions. This ensures significantly enhanced organisational efficiency. This function has the effect of limiting risk and improving accountability. The Group Company Secretary also advises the Board on corporate governance issues, sets the annual plan for the Board in conjunction with the Chairperson and monitors compliance with relevant legislation, including the PFMA, National Treasury Regulations and the Companies Act. All directors have access to the incumbent for company-relevant services and guidance and the Group Company Secretary also keeps the Board updated on any new relevant legislation.

BOARD MEETINGS

Meetings of the Board are convened by formal notice as per the annual schedule. The schedule is compiled by the Group Company Secretary and approved by the Board. Special meetings are convened as and when required to address specific material issues. Corporate governance, especially transparency and accountability, is enhanced with comprehensively compiled Board documents submitted by the executive management.

KEY ISSUES CONSIDERED AND APPROVED/NOTED BY THE BOARD THIS YEAR:

COMMITTEE	MATERIAL MATTERS CONSIDERED
Board	During the 2019/20 financial year, the Board fulfilled the following duties in accordance with its mandate: • Reviewed and approved the strategy and strategic objectives of Denel • Approved the 2019 Integrated Report, including the annual financial statements • Approved reports to the Shareholder, including the quarterly business reports • Set the tone of the company values, including principles of ethical business practice and the requirements of being a responsible corporate citizen • Confirmed that the company complies with all applicable laws and best corporate governance practices • Exercised independent, informed and effective judgment to bear on material decisions of the group's companies • Reviewed management's assertion on its liquidity and going concern basis • Assessed the stability of the executive management • Issued a statement on performance management

DETAILS REGARDING BOARD MEETING ATTENDANCE ARE REFLECTED BELOW:

	Quarter 1 (April to June)			Quarter 2 (July to September)			Quarter 3 (October to December 2019)				Quarter 4 (January to March 2020)	
BOARD MEMBER	Total	16 April 2019	27 June 2019	25 July 2019	Special 25 September 2029	AGM 26 Sept 2019	Special Board 25 November 2019	Board strategy 26 Noember 2019	27 Noember 2019	10 December 2019	27 February 2020	26 March 2020
Ms MW Hlahla (Chairperson)	11/11	√	√	√	√	√	√	√	√	√	√	T
Ms M K Lehloenya1	10/11	√	√	√	√	√	√	√	√	√	√	A
Mr TH Magazi	10/11	√	√	√	√	A	√	√	√	√	√	√
Lt Gen TT Matanzima	10/11	√	√	√	√	√	√	√	√	√	√	A
Mr MM Mnisi	7/11	√	√	√	T	A	√	√	A	A	√	A
Dr H Nel	10/11	√	√	A	√	√	√	√	√	√	√	T
Gen S Nyanda (retired)	10/11	√	A	√	√	√	√	√	√	√	√	T
Ms SR Rabkin	11/11	√	√	√	√	√	√	√	√	√	√	T
Mr MT Sadik	9/11	√	T	√	√	√	√	A	√	A	√	T
Mrs GT Serobe	9/11	√	√	A	√	√	√	A	√	√	√	T
Dr SP Sibisi	6/11	√	A	√	A	A	√	A	A	√	√	T
Ms N Siyotula	7/11	T	T	√	√	√	A	A	A	T	A	T
Mr D du Toit	11/11	√	√	√	√	√	√	√	√	√	√	√
Mr W de Klerk[1]	1/1	√	-	-	-	-	-	-	-	-	-	-
Mr G P van Zyl[2]	2/2	-	√	√	-	-	-	-	-	-	-	-
Ms C Le Grange[3]	7/8				√	√	A	√	√	√	√	√

A = Apology
T = Via telecon
[1] = Resigned on 14 June 2019
[2] = Acting GCFO from 1 June 2019 to 30 August 2019
[3] = Appointed GCFO from 1 September 2019

BOARD COMMITTEES

The Board delegates specific responsibilities to five standing Board committees, namely the Audit Committee, the Risk Committee, the Personnel, Remuneration and Transformation (PR&T) Committee, the Social and Ethics (S&E) Committee and the Finance and Investment Committee. The Board committees assist the directors to discharge their duties and ensure the Board's effectiveness in discharging its duties. The committees' terms of reference and the Board Charter are reviewed annually to limit risk and ensure that they remain in line with relevant regulations, company requirements and best practice in corporate governance.

The Audit Committee meets four times a year, in agreement with the company's Memorandum of Incorporation, and the other Board committees meet a minimum three times a year. Executives regularly attend the Board Committee meetings in line with their roles and responsibilities.

The respective Chairperson's reports form an integral part to keep the Board abreast of the Board committees' activities. Significant matters discussed at these Board Committee meetings are regularly submitted with recommendations for the Board to deliberate and decide.

AUDIT COMMITTEE

The Audit Committee, including its Chairperson, comprises only independent non-executive directors, with the executive directors as standing invitees to the committee meetings. Members of the Audit Committee have considerable expertise in various fields, notably risk management and the commercial and legal experience necessary to oversee and guide the Board.

The Audit Committee provides the following support to the group: the external and internal audit functions, corporate governance and the governance of information technology. To improve accountability and limit risk, the appointment of members of the Audit Committee is reconsidered and voted on at every AGM.

The Audit Committee's terms of reference are reviewed and updated annually in line with relevant 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 and the soundness of the internal control environment.

The Audit Committee provides the following support activities to the Board of Directors:

- Reviews the Integrated Report, including consolidated annual financial statements, and consider reports of the auditors on the financial statements
- Reviews the effectiveness of the company's internal controls
- Considers matters emanating from the company's ethics hotline, planned management actions and the results of enquiries in conjunction with the S&E Committee
- Agrees on the scope of the auditors' work and their fees
- Monitors the performance of the internal audit function
- Considers the combined assurance model, assessing levels of assurance that is provided by auditors, regulators, management and other assurance providers
- IT governance

KEY ISSUES CONSIDERED AND RECOMMENDED TO THE BOARD/NOTED BY THE AUDIT COMMITTEE THIS YEAR:

COMMITTEE	MATERIAL MATTERS CONSIDERED
Audit Committee	During the 2019/20 financial year, the Committee, among other things, focused on the following: • Reviewed and recommended for adoption to the Board the Annual Financial Statements and the Integrated Report for 2019 • Reviewed the reports from the internal and external auditors regarding the effectiveness of the internal control environment • Monitored the appropriateness of the company's combined assurance model • Approved the external audit plans • Reviewed and recommended the external audit fees • Reviewed the quality and effectiveness of the external audit process • Reviewed the quarterly reports before submission to the executive and accounting authorities • Led investigations sanctioned by the State Capture Commission

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Quarter 1 (April to June 2019)					Quarter 2 (July to September 2019)				Quarter 4 (October to December)		Quarter 4 (January to March)	
COMMITTEE MEMBER	Total	Special 2 April 2019	15 April 2019	Special 17 May 2019	Special 28 May 2019	Special 25 June 2019	Special 10 July 2019	24 July 2019	Special 6 Aug 2019	Special 25 Sept ember 2019	23 Oct ober 2019	5 December 2019	27 February 2020	25 March 2020
Mr MT Sadik (Chairperson)	13/13	√	√	√	√	T	√	√	√	√	√	√	√	√
Prof SP Sibisi	9/13	A	√	√	√	√	√	√	A	A	A	√	√	T
Mrs GT Serobe	7/13	√	√	A	A	√	√	A	A	√	√	A	√	A
Ms N Siyotula	11/13	T	T	T	√	√	A	A	T	√	√	T	T	T
Ms KM Lehloenya	12/13	√	√	T	A	T	T	√	√	√	√	√	√	T
Mt TH Magazi	12/13	√	√	√	√	√	A	√	√	√	√	√	√	T
STANDING INVITEES														
Mr D du Toit	11/13	√	√	√	A	√	A	√	√	√	√	√	√	√
Mr W de Klerk	2/4	A	√	A	√	-	-	-	-	-	-	-	-	-
Mr GP van Zyl[1]	4/4	-	-	-	-	√	√	√	√	-	-	-	-	-
Ms C Le Grange[2]	5/5							-		√	√	√	√	√
Ms M Ngema[3]	3/4								-	√	√	√	A	-
Mr KW Hlakoane	2/4								√	A	√	A	-	-

A = Apology
T = Via telecon
1 = Appointed Acting Group CFO effective 1 June 2019
2 = Appointed Group CFO effective 1 September 2019
3 = Appointed Group Executive: Human Resources and Transformation from 1 July 2019
4 = Appointed Group Chief Operating Officer from 1 July 2019

SOCIAL AND ETHICS COMMITTEE

Only independent non-executive directors serve on the S&E Committee. This includes the Chairman, who is confirmed at every AGM. The executive directors are standing invitees to committee meetings and relevant EXCO members may attend the committee meetings by invitation. External experts, as proposed in the regulations, are appointed to the Committee by the Board, as and when necessary.

The Committee advises the Board on good corporate citizenship and ethical relationships, reporting to the Board and the Shareholder on the group's commitment in this regard. The Committee's terms of reference are reviewed and updated annually.

An annual work plan ensures that it meets all monitoring and reporting responsibilities within the annual cycle. A significant responsibility of the committee is to consider the group's corporate and social investment programmes, transformation and enterprise development initiatives, occupational health and safety (OHS), stakeholder management and the ethics policy.

The Social and Ethics Committee provides the following support activities to the Board of Directors:

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

KEY ISSUES CONSIDERED AND RECOMMENDED TO THE BOARD/NOTED BY THE S&E COMMITTEE THIS YEAR:

COMMITTEE	MATERIAL MATTERS CONSIDERED
Social and Ethics	During the 2019/20 financial year, the Committee, among other things, focused on the following: • Matters relating to stakeholder management and corporate citizenship • Matters relating to ethics risk management, including surveys and training • Matters relating to social and economic development and employee relationships • Matters relating to group supply chain and transformation, B-BBEE and enterprise development • Matters relating to occupational health, safety and environmental management • Corporate social investments • Various social and ethics-related policies

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Quarter 1 (April to June 2019) no meetings were held	Quarter 2 (July to September 2019)	Quarter 3 (October to December 2019)		Quarter 4 (January to March 2020)
COMMITTEE MEMBER	Total	No meetings were held	10 July 2019	21 October 2019	25 November 2019	24 February 2020
Dr H Nel (Chairperson)	4/4	-	√	√	√	√
Ms SR Rabkin	4/4	-	√	√	√	√
Ms MW Hlahla	3/4	-	A	√	√	√
Lt Gen TT Matanzima	3/4	-	√	A	√	√
Mr MT Sadik	4/4	-	√	√	√	√
STANDING INVITEES						
Mr D du Toit	3/4	-	A	√	√	√
Mr GP van Zyl	0/0	-	-	-	-	-
Ms C Le Grange	3/3	-	-	√	√	√
Ms M Ngema	3/3	-	-	√	√	√
Mr KW Hlakoane	2/3	-	-	A	√	√

A = Apology

SOCIAL AND ETHICS COMMITTEE REPORT

In the period under review, the Social and Ethics Committee comprised five non-executive directors, chaired by Dr Hannelie Nel.

The Social and Ethics Committee of the Denel Group is constituted as:

i. a statutory committee of Denel and its subsidiaries, to the extent required, in respect of its statutory obligations in terms of section 72(4) of the Companies Act; and
ii. a committee of the Board of Directors of Denel SOC Ltd in respect of all other duties assigned to it by the Board.

The Committee has an independent role with accountability to both the Board and the sole Shareholder of Denel. The Committee does not assume the functions of management, which remains the responsibility of the executive directors, prescribed officers and other members of senior management within the Denel Group.

The main role of the Committee is to assist the Board with the oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development, stakeholder relations and general ethical matters relating to the Denel Group.

Although only required to meet three times per year to discharge all of its duties, as set out in the Committee's terms of reference, the Committee met and reported to the Board on a quarterly basis, highlighting areas of concern and matters considered within its mandate.

Salient matters considered included the following:

1. Zondo Commission and the Special Investigating Unit
   a. A specialised task team was established to respond to the requests made and the requirements of the Zondo Commission.
   b. Information requested was submitted and continuing endeavours to provide all information required are being made.
2. Supply Chain Management
   a. The Committee facilitated the appointment of a Group Supply Chain Manager.
   b. A Supply Chain Management Policy was developed and implemented.
3. Price Waterhouse Coopers (PWC) Report
   a. Pwc was appointed to do a diagnostic investigation across the Denel Group to identify cost-cutting potential and to support Denel with solutions to overcome its liquidity challenges.
   b. The Committee considered this report and ensured implementation to recommendations made applicable to the Committee.
4. OHS and environmental management
   a. An OHS dashboard was created in order to monitor OHS within the company.
   b. The Committee provided oversight over OHS, but this is officially managed and monitored by the Risk Committee.
   c. The Committee recommended the Safety Health and Environmental Report to the Board for approval.
   d. Continuous monitoring of Environmental management is conducted by the Committee.
5. Legal and regulatory compliance
   a. Workshops were held with executives to ensure compliance with applicable legislation and regulations.
   b. Continuous updates were provided by management on legal and regulatory compliance.
6. Denel's Communication Strategy and Implementation Plan
   a. The strategy was developed, and implemented and executed as envisaged in the plan.
7. Whistleblowing hotline activities
   a. The Committee provides oversight over the hotline activities, but this officially managed and monitored by the Risk Committee.
8. B-BBEE
   a. A valid B-BBEE certificate is in place, indicating an improvement from Level 6 to Level 4.
9. Policies developed
   a. Ethics Policy.
   b. Fraud and Corruption Prevention Policy.
   c. Code of Ethics and Business Conduct Policy.
   d. Environmental Management Policy.

10. Governance
    a. A King IV workshop was held with the Committee to provide an overview of the requirements of the governance principles prescribed by King IV.
    b. An Ethics Framework and dashboard was developed for monitoring purposes.

11. Stakeholders' Framework and report on primary stakeholders.
    a. Reports were submitted to the Committee regarding engagements and relationships with stakeholders.

12. Transformation report
    a. The transformation report was considered, including skills development, enterprise development/preferential procurement, socio-economic development and B-BBEE levels.

13. Memorandum of Incorporation
    a. The Committee provided input into the proposed new Memorandum of Incorporation.

14. Culture Transformation Plan
    a. The plan was considered by the Committee and recommended to the Personnel, Remuneration and Transformation Committee.

15. Business Continuity Plan
    a. The Draft Business Continuity Plan was developed, however, it is still under review.

16. Employee wellness
    a. The Committee is cognisant of and concerned about the overall wellness of the employees as a result of the company's financial position and its inability to pay staff their normal salaries. The Committee is aware that employees are suffering financially and emotionally, and that overall employee morale is extremely low.
    b. Employees and their families are further financially and emotionally affected by COVID-19 and Denel has already reported the passing of three employees due to COVID-19.

The Committee is satisfied that it fulfilled its mandate in accordance with the requirements of the Companies Act during the financial year under review and continues to exercise due oversight over the company to ensure that it remains a socially, economically and environmentally responsible and caring corporate citizen and, in so doing, protects the Denel brand, reputation and assets.

Dr H Nel
Chairperson: Social and Ethics Committee

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

Denel's Personnel, Remuneration and Transformation Committee, comprises only independent non-executive directors. Its scope of responsibilities is detailed in the terms of reference, which are reviewed and approved annually by the Board.

The PR&T Committee gives assurance that remuneration arrangements with employees support the group's strategic objectives and enable the recruitment, motivation and retention of senior executives, while complying with the requirements of regulations.

The responsibilities of the PR&T Committee include reviewing the design and management of Denel's remuneration and reward principles, policies and implementation strategies.

The PR&T Committee provides the following support activities to the Board of Directors:

- Evaluating the performance of the executive management, and setting appropriate remuneration
- Overseeing the group's performance in respect of EE, transformation and staff development, taking into consideration the legal requirements and monitoring of targets set by the company
- Overseeing the skills development and retention of critical skills and talent

For the sake of transparency and accountability, the performance of each executive is assessed relative to the prevailing business climate and market conditions, as well as key predetermined targets. In accordance with principles of good governance, executives being evaluated are recused from the meeting. Standing invitees to the Committee's meetings include the two executive directors, the Group Executive: HR and Transformation, and any other executives whose roles and responsibilities are relevant to the matters under consideration.

KEY ISSUES CONSIDERED AND RECOMMENDED TO THE BOARD/NOTED BY THE PR&T COMMITTEE THIS YEAR:

COMMITTEE	MATERIAL MATTERS CONSIDERED
Personnel, Remuneration and Transformation	During the 2019/20 financial year, the Committee, among other things, focused on the following: • Salary negotiations • The retention strategy, transformation and skills development • HR and remuneration policies • Recruitment and resources oversight • Board Development Plan • Succession planning • Performance contracts

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Quater 1 (April to June 2019)		Quater 2 (July to September)	Quater 3 (October to December 2019)			Quater 4 (January to March 2020)	
COMMITTEE MEMBER	Total	Special 3 June 2019	Special 25 June 2019	10 July 2019	Special 17 September 2019	Special 17 September 2019	Ad hoc 5 December 2019	Special 10 February 2020	26 February 2020
Mr TH Magazi (Chairperson)	8/8	√	√	√	√	√	√	√	√
Ms N Siyotula	5/8	T	√	A	T	√	T	A	A
Ms MW Hlahla	0/8	A	A	A	A	A	A	A	A
Dr H Nel	8/8	√	√	√	√	√	√	√	√
Gen S Nyanda (retired)	6/8	√	A	√	√	√	A	√	√
STANDING INVITEES									
Mr D du Toit	6/8	√	√	A	√	A	√	√	√
Ms C Le Grange[1]	5/5	-	-	-	√	√	√	√	√
Ms M Ngema[2]	6/6	-	-	√	√	√	√	√	√
Mr KW Hlakoane[3]	2/5	-	-	-	A	A	√	A	√

A = Apology
T = Via telecon
[1] = Appointed GCFO effective 1 September 2019
[2] = Appointed Group Executive: HR and Transformation effective 1 July 2019
[3] = Appointed Group Chief Operating Officer effective 1 July 2019

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE REPORT

The Personnel, Remuneration and Transformation Committee of the Denel Group is based on the wide approach to responsibility of the personnel, remuneration and transformation as set out in the King Report on Corporate Governance for South Africa, 2016 (King IV) and is a Committee of the Board of Directors of Denel SOC Ltd in respect of all other duties assigned to it by the Board.

The Committee has an independent role with accountability to both the Board and the sole Shareholder of Denel. The Committee does not assume the functions of management, which remains the responsibility of the executive directors, prescribed officers and other members of senior management within the Denel Group.

The main role of the Committee is to assist the Board with oversight and reporting on human capital, to give direction on how remuneration should be approached and addressed on an organisational-wide basis, and review, monitor and provide guidance on Denel's transformation matters, including policies, plans and strategies with the following broad objectives:

- Ensuring that policies aimed at achieving Denel's transformation vision, values and objectives are developed and implemented
- Ensuring that plans and strategies aimed at compliance with legislation that impact on or have the potential to impact on Denel's rights are in place and implemented
- Promoting an organisational culture that affords all employees the development opportunities that will enable them to achieve their optimal levels of career development in the course of their employment with Denel, recognising the diversity of the society within which Denel conducts its business.

REMUNERATION

- The Committee considers the following:
  - The Remuneration Policy, ensuring that it addresses organisation wide remuneration
  - Specific remuneration packages for each *ex officio* director and the prescribed officers
  - The payment of the performance-linked bonuses of the Group Executive of Denel, and setting a criteria for, and the relative value of such payments, in line with the Remuneration Policy
  - Other matters relating to the remuneration of and/or terms of employment applicable to the Group Executive
  - Reviews and makes recommendations to the Board, where necessary, on all new employment, consulting, retirement and severance agreements and arrangements proposed for Denel's executives.

TRANSFORMATION

- The Committee monitors and reviews the following:
  - The implementation of policies aimed at achieving Denel's transformation vision, values and objectives
  - Guidance with respect to the Human Resources policies and strategies aimed specifically at redressing past inequalities in the South African workplace in the course of creating a competitive workforce, which recognises the social profile of South Africa and the national employment equity plan to consider and address the localisation requirements
  - Management's performance as it relates to the implementation of the transformation policy and strategy
  - The implication of external trends, including legislative developments
  - Denel's plans and strategies aimed at complying and/or influencing the development of transformation that has the potential to negatively impact on Denel's rights, succession, transformation, training and development plans

EVALUATION OF PERFORMANCE

- The Committee reviews and evaluates the following:
  - The performance of the Group's Chief Executive Officer, taking into consideration the strategic goals and objectives as approved by the board
  - Denel's performance in the area of HR development against internal targets, imperative legislation and the norms applicable to conducting business.

GENERAL

- The Committee also reviews and oversees the following:
  - Human resource policies and strategies aimed at creating and sustaining the technical and managerial excellence required to support the attainment of Denel's global objectives and the government's objectives, including the following:
    - Attraction, motivation, rewarding and retention of human capital
    - Promotion of the achievement of strategic objectives within the organisation's risk appetite
    - Promotion of positive outcomes
    - Promotion of an ethical culture and responsible corporate citizenship

The Committee is satisfied that it fulfilled its mandate in accordance with the requirements of the terms of reference and mandate of the Board during the financial year under review and continues to exercise due oversight over the company's personnel, remuneration and transformation.

Mr T Magazi

Chairperson: Personnel Renumeration & Transformation Committee

FINANCE AND INVESTMENT COMMITTEE

Denel's Finance and Investment Committee is responsible for ensuring that financial planning and investment decisions are effective, efficient and in accordance with the group's strategic objectives.

The Finance and Investment Committee also ensures that there are systems and procedures in place to ensure that goods and services are procured in a manner that is transparent, fair and cost-effective.

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Quater 1 (April to June 2019)			Quater 2 (July to September 2019)		Quater 3 (October to December 2019)			Quater 4 (January to March 2020)	
COMMITTEE MEMBER	Total	Special 5 April 2019	Special 30 April 2019	Special 19 June 2019	Special 24 July 2019	Special 27 August 2019	1 October 2019	23 October 2019	2 December 2019	Special 27 January 2020	25 February 2020
Mrs GT Serobe (Chairperson)	9/10	√	√	√	A	√	√	√	√	√	√
Dr SP Sibisi	8/10	√	√	√	√	A	√	A	√	√	√
Ms MK Lehloenya	10/10	√	√	√	√	√	√	√	√	√	√
Mr MM Mnisi	7/10	√	A	√	T	√	√	A	A	√	√
Gen S Nyanda	10/10	√	√	√	√	√	√	√	√	√	√
INVITEES (NED)											
Ms M Hlahla	1/2	-	-	-	-	-			A	√	
Dr H Nel	4/4	-	-	-	-	√	√		√	√	
Mr TH Magazi	4/4	-	-	-	√	-	√		√	√	
Ms N Siyotula	0/3	-	-	-	-	-	A	-	A	A	
Mr MT Sadik	6/7	-	-	-	√	√	√	√	√	√	A
Ms SR Rabkin	6/6	-	-	-	-	√	√	√	√	√	√
Lt Gen TT Matanzima	3/3	-	-	-	-	-	√		√	√	
STANDING INVITEES											
Mr D du Toit	9/10	√	A	√	√	√	√	√	√	√	√
Mr W de Klerk	2/2	√	√		-	-	-	-	-	-	-
Mr GP van Zyl	2/3	-	-	√	√	A	-	-	-	-	-
Ms C Le Grange[1]	4/5						A	√	√	√	√
Ms M Ngema[2]	4/5					-	√	√	√	A	√
Mr KW Hlakoane[3]	6/6					√	√	√	√	√	√

A = Apology
[1] = Appointed GCFO effective 1 September 2019
[2] = Appointed Group Executive: HR and Transformation effective 1 July 2019
[3] = Appointed Group Chief Operating Officer effective 1 July 2019

RISK COMMITTEE

The Risk Committee, including its Chairperson, comprises only independent non-executive directors, with the executive directors as standing invitees to the committee meetings. Members of the Risk Committee have considerable expertise in various fields, notably risk management, and have the commercial and legal experience necessary to oversee and guide the Board.

The Risk Committee's terms of reference include the Committee's mandate, which is to ensure the robustness of risk management processes.

The Risk Committee provides the following support activities to the Board of Directors:

- Reviews and assesses the risk control process and systems
- Considers Treasury controls and related risk management processes

KEY ISSUES CONSIDERED AND RECOMMENDED TO THE BOARD/NOTED BY THE RISK COMMITTEE THIS YEAR:

COMMITTEE	MATERIAL MATTERS CONSIDERED
Risk Committee	During the 2019/20 financial year, the Committee, among other things, focused on the following: • Appointment of a service provider for risk management policy and governance • Programme management risk • Internal Audit risk-based plan • Risk register • Memorandum of Incorporation amendment

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Quater 1 (April to June 2019)		Quater2 (July to Sept 2019)			Quater3 (October to December 2019)			Quater4 (January to March 2020)	
COMMITTEE MEMBER	Total	12 April 2019	15 April 2019	Special 27 August 2019	Special 16 September 2019	23 September 2019	8 October 2019	21 October 2019	2 December 2019	26 February 2019	Special 17 March 2020
Ms MK Lehloenya (Chairperson)	10/10	√	√	√	√	√	√	√	√	√	T
Mr MT Sadik	10/10	√	√	√	T	√	√	√	T	√	T
Mr MM Mnisi	6/10	√	√	√	A	√	A	A	√	A	T
Dr H Nel	10/10	√	√	√	√	T	√	√	√	√	T
Mr TH Magazi	8/10	√	A	√	√	√	√	√	√	√	A
Ms SR Rabkin	10/10	√	√	√	√	√	√	√	√	√	T
INVITEES (NED)											
Ms N Siyotula	2/2	-	√	-	-	-	-	-	-	-	T
Mrs GT Serobe	1/1	-	-	√	-	-	-	-	-	-	-
STANDING INVITEES											
Mr D du Toit	9/10	√	√	√	√	A	√	√	√	√	√
Mr W de Klerk	2/2	√	√	-	-	-	-	-	-	-	-
Mr G van Zyl[1]	0/1	-	-	A	-	-	-	-	-	-	-
Ms C Le Grange[2]	5/7	-	-	-	√	A	√	√	√	√	A
Ms M Ngema[3]	5/6	-	-	-	-	√	√	√	√	√	A
Mr KW Hlakoane □	8/8	-	-	√	√	√	√	√	√	√	√

A = Apology
T = Vvia telecon
[1] = Appointed acting GCFO effective 1 June 2019
[2] = Appointed GCFO effective 1 September 2019
[3] = Appointed Group Executive: HR and Transformation effective 1 July 2019
□ = Appointed Group Chief Operating Officer effective 1 July 2019

EXECUTIVE COMMITTEE

The Denel Group Executive Committee (EXCO) is chaired by the GCEO and, in keeping with continuity, includes all subsidiary CEOs. Standing invitees to the EXCO are the Group Risk Manager and the Group Supply Chain Manager. The responsibilities of the EXCO include overseeing the day-to-day management of the group's affairs, executing the decisions of the Board, strategy development and reviews of the group's values, health and safety aspects, operations and financial performance. In accordance with good governance, the EXCO meets on a regular basis.

CODE OF ETHICS

Denel's values underpin its Code of Ethics and are addressed to all stakeholders who have an interest in the group's activities and the way it conducts its business. The group's Code of Ethics includes guidance on ethical standards and how to achieve them.

Over time, Denel has strengthened policies and processes to ensure that employees have clear guidance to make ethical choices and an understanding of the due diligence required in all business decisions.

Through the recently updated Code of Ethics, Denel now sets clear expectations for directors, employees, suppliers, clients and other stakeholders. Regular awareness training regarding the Code and ethical standards helps to embed a culture of responsible business conduct throughout the group.

The group has a whistle-blowing mechanism that is operated by an independent organisation. External stakeholders have also been made aware of the company's ethics policy and hotline via its Procurement and Legal departments.

Ethics matters are monitored and reported to both the Audit Committee and the S&E Committee.

INTERNAL CONTROL

Whereas the Board oversees the system of internal control within Denel, the implementation of these systems rests with the executive management. On a regular basis, the Board's Audit Committee subcommittee is presented with a formal review of the effectiveness of the group's internal controls. This review is informed by the combined assurance matrix, which identifies significant processes and assurances.

Denel has put in place financial and operational processes to manage and monitor risk as part of a system of internal control. The system entails policies, processes and structures at all levels of the organisation to ensure a process of risk governance. Business processes, delegations of authority, significant transactions, accounting and other management standards form part of the system of internal control.

Internal control ensures the effective discharge of authority, the execution of significant transactions within the realm of the Materiality and Significance Framework, and general compliance with legal and regulatory requirements. Each business unit addresses internal control issues as they arise and dedicates time (at least twice a year) to formally assess the internal control environment and risks. This ensures that risks are mitigated at the appropriate levels of management throughout the group.

INTERNAL AUDIT

The Board has decided to outsource the Internal Audit function as, on assessment of the internal skills, it became clear that, due to the business requirement and its diversity, an internal function was not sufficient to provide the required skills.

BUSINESS UNITS

Denel's business units follow the group's policies, governance and financial control systems. As such, they comply fully with the PFMA, the Companies Act and other relevant legislation, including that of foreign countries where they conduct business.

All business units are accountable to the GCEO. This material arrangement is further enhanced by each business unit's CEO being part of the group EXCO. In addition to the Business Development Council and IT Steering Committee, various forums are held regularly, i.e. arms control, business development, CFO, HR, legal, risk and compliance, security, SHEQ, supply chain and transformation. Operational maters are discussed in these engagements, as well as topics relevant to executive management and the leadership of the group in implementing the group's strategies.

COMBINED ASSURANCE

A combined assurance matrix is in place to enable the Board to appreciate the effectiveness of the system of internal control and risk management in the group. The combined assurance matrix is based on three levels of assurance namely: management assurance, oversight assurance and independent assurance. This combined assurance approach ensures coordination among the different assurance providers and prevents unintended audit duplication and audit fatigue, while optimising audit costs. Denel also uses the combined assurance as input to the three-year rolling audit plan for the following year.

Assurance is provided through management self-assessments, observations, risk management, internal audit, external audit, the Parliamentary Portfolio Committee, as well as various external bodies. External bodies involved in Denel include the National Key Point Secretariat, National Conventional Arms Inspections and Audit Directorate, Armscor, the South African Bureau of Standards, Dekra, Bureau Veritas, OEMs and the South African National Accreditation System. Internal Audit conducts a risk-based assessment of the control environment, and management assurance covers all critical business processes and their performance. Internal audit completes its assurance processes based on the approved audit plan designed for Denel's risk profile. External Audit follows a specific audit scope approved by the Audit Committee and places reliance on internal audit work, as and where appropriate.

The effectiveness of Denel's system of internal control, financial, operational and other regulatory controls is continuously reported to and assessed by the Audit Committee to enable the Board to discharge its oversight responsibilities.

COMBINED ASSURANCE

1 MANAGEMENT ASSURANCE
FIRST LEVEL

Senior management	Accounting officers/ authority	Executive authority
REQUIRED ASSURANCE LEVELS		
Extensive	Extensive	Extensive

Management's assurance role

- Senior management – takes immediate action to address specific recommendations and adhere to financial management and internal controls systems
- Accounting officers/authority – holds officials accountable on the implementation of internal controls and reports progress quarterly and annually
- Executive authority – monitors the progress of performance and enforces accountability and consequences

2 OVERSIGHT ASSURANCE
SECOND LEVEL

Coordinating/ monitoring institutions	Internal audit	Audit Committee
REQUIRED ASSURANCE LEVELS		
Extensive	Extensive	Extensive

Oversight's assurance role

- National Treasury – monitors compliance with laws and regulations and enforces appropriate action
- Internal audit – follows up on management's actions to address specific recommendations and conducts own audits on the key focus areas in the internal control environment, and reports on quarterly progress
- Audit Committee – monitors risks and the implementation of commitments on corrective action made by management, as well as quarterly progress on the action plans

3 INDEPENDENT ASSURANCE
THIRD LEVEL

Oversight (Portfolio committees/ councils)	Public Accounts Committee	National Assembly
REQUIRED ASSURANCE LEVELS		
Extensive	Extensive	Extensive

Role of independent assurance

- Oversight (Portfolio committees) – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- Public Accounts Committee – exercises specific oversight on a regular basis on any report that it may deem necessary
- National Assembly – provides independent oversight on the reliability, accuracy and credibility of national and provincial government

FRAUD AND CORRUPTION

Denel does not tolerate fraud and corruption, and regards it as a cancer that should be eradicated as they have the propensity to bring the company's name into disrepute and destroy the company value. As a state-owned company and a global trader in arms, regulators and the public expect the Board, management and staff to protect the company's assets, ensure a fair, equitable and transparent process of procurement, avoid the abuse of supply chain, and conduct business with honesty.

The nature of Denel's business places the company at risk of collusion between employees and suppliers, theft, fraudulent invoicing, intellectual property infringements, conflicts of interest and other forms of corruption.

Denel implements a fraud and corruption prevention strategy along with the requirements of the PFMA and the principles of the UN Global Compact to mitigate this risk. The main purpose of the fraud and corruption, prevention strategy is to prevent, detect and investigate incidents of fraud and corruption, and ensure consequences for those found guilty of fraud and corruption. The S&E Committee advises the Board on good corporate citizenship and ethical relationships in implementing the group's strategy.

PREVENTION OF FRAUD AND CORRUPTION

Denel has put in place financial and operational policies and processes as part of a transparent system of internal control. The system provides for the segregation of duties to promote transparency and accountability at various levels of the group. Policies and procedures guide the way transactions should be conducted and expose impropriety. This includes a supply chain process whose purpose is to ensure transparency, equity and fairness in the procurement of goods and services. Additionally, Denel has promulgated corporate values to guide the conduct of its employees and business partners as part of a system of good corporate governance.

Denel continuously raises awareness among employees regarding the system of internal controls. This includes the delegations of authority, supply chain and other policies aimed at protecting the organisation's assets and reputation, preventing fraud and corruption, and promoting ethical conduct.

The values of Denel, ethics, and fraud and corruption prevention awareness are included in the group's induction programme. Additionally, fraud and corruption prevention awareness is continuously promoted through the group's newsletters and other forms of communication.

DETECTION OF FRAUD AND CORRUPTION

Denel's fraud and corruption detection process cuts across business functions. The recruitment processes help detect persons with high exposure to fraud and corruption through reference checking and security clearance. Supply chain and other operational requirements, including entering into partnerships, dictate that due diligence be conducted to assess the standing of the potential partner. Management continuously interrogates financial, HR and supply chain information to detect possible instances of fraud and corruption as part of the day-to-day control activities. Irregular, fruitless and wasteful expenditure are continuously assessed to detect fraud and corruption.

To embed integrity in the organisation, Denel decided to introduce lifestyle audits for executives and senior staff members. Lifestyle audits will commence as soon as a protocol to implement the audits has been promulgated.

WHISTLE-BLOWING

Denel has an independent, confidential hotline accessible to all stakeholders, through which suspected fraudulent and unethical behaviour may be reported. The hotline number is published on the intranet and website, supplier and customer orders, the group's newsletter and noticeboards. Denel has put plans in place to re-launch the hotline and establish a panel of forensic companies to ensure that cases are promptly and independently investigated.

To report suspected incidents of fraud and corruption, employees and stakeholders call:

Toll-free hotline number: 0800 032 784
Secure email address: denel@behonest.co.za
WhatsApp: 0860 004 004 Online and chat: www.behonest.co.za

INVESTIGATION AND CONSEQUENCE MANAGEMENT

Denel has appointed a panel of forensic forms to conduct investigations under the supervision of the Board and Audit Committee. Of the cases concluded, disciplinary action or criminal action is being processed as appropriate.

LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

The nature of Denel's business requires the assessment of and integration of legal, regulatory and public policy requirements into the strategy and operational processes of the group. This enables Denel to meet its contractual, moral and corporate citizenship obligations. As a state-owned company that trades globally, the observation of laws that govern the group and its activities forms the foundation for good corporate governance. The compliance process demonstrates responsibility to the Shareholder and other stakeholders.

Denel has developed a governance turnaround plan, which, among other things, addressed governance lapses that were experienced in the preceding period, including the elimination of fruitless and wasteful expenditure.

LEGAL COMPLIANCE FRAMEWORK

Denel has systems in place that enable the company to meet its legal and regulatory obligations regarding the protection of confidential information, occupational health and safety, the environment, quality management, as well as industry and trading requirements. The framework is illustrated in the diagram below:

COMPLIANCE ROLES	DEVELOPMENT, MANUFACTURING AND SERVICING OF AEROSPACE, DEFENCE AND RELATED SERVICES AND PRODUCTS	NATIONAL PROGRAMMES
Assessing the group's strategy	Corporate citizenship	Defence Review
Identifying compliance requirements	Strategy and planning	Industrial Policy Action Plan
Prioritising compliance requirements	Finance	National Development Plan
Integrating compliance requirements into strategy, policy and procedures	Human resources	B-BBEE
Assigning accountability for and monitoring compliance requirements	Business development	Corporate Social Investment
	Operations	
	Public reporting	

Legislation: Civil Aviation, Companies Act, Competition Act, Conventional Arms Control, Employment Equity, Environmental, Exchange Control, Firearms, Labour, PFMA, Prevention of Corruption, Proliferation of Weapons of Mass Destruction, Protection of Personal Information, Public Procurement and Tax

REMUNERATION REPORT

The philosophy underpinning the remuneration strategy and policy is that people should be rewarded for making a positive and appropriate difference to Denel. This is premised on their performance and contributions to achieve Denel's vision, strategic drivers, values and objectives to be a dynamic, vibrant, financially sustainable, transformed and profitable business. The remuneration strategy and policy are management tools designed to support, reinforce and align employee behaviour and actions to Denel's values and objectives.

The remuneration philosophy supports the human capital strategy, which aims to attract and retain employees of the right calibre and competence, and motivate employees to perform in line with business and operational objectives. To ensure internal equity, Denel conducts regular salary benchmark and, evaluates and grades jobs to provide equitable remuneration to employees in accordance with their assigned duties and responsibilities, while differentials will be based on fair practices.

The remuneration strategy seeks to the following:

- Provide remuneration that attracts, retains, measures and motivates employees and helps to develop a high-performance culture
- Ensure that remuneration levels are competitive in the market
- Drive and encourage sustainable performance improvement
- Provide a "total reward" approach, which involves creating a suitable mix of financial and non-financial rewards
- Implement remuneration practices that encourage highly competent individuals to consistently and effectively apply their competencies to enhance business performance
- Ensure that remuneration is capped at a maximum monetary value, related to market remuneration, per job level above which no individual may progress
- Develop a remuneration process that provides for equitable pay that is fair, consistent and transparent, but differentiates between non-performance, average and excellent performers
- Ensure alignment with Denel's business strategy
- Be fit for purpose, not one size fits all
- Be flexible and adaptable in response to Denel's divisional operating environment
- Be fair and equitable, and supportive of diverse needs (i.e. remuneration does not discriminate unfairly based on criteria that are not work-related or outside the employee's control, such as race, gender, family responsibility, disability, age, etc.)
- Reinforce workforce stabilisation, teamwork and a culture of belonging and high commitment
- Comply with legislation and relevant guidelines
- Withstand the scrutiny of stakeholders and the general public

EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS' REMUNERATION

The PR&T Committee reviews the remuneration of the executives. The Committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration provided by the DPE for SOCs. Annual salary increases are approved by the Shareholder at the AGM. The remuneration paid or accrued to the executives during the year has been disclosed in Note 32 of the annual financial statements on page 195.

SHORT-TERM INCENTIVES

Denel has a performance-based, short-term incentive scheme, referred to as performance pay, which is based on the performance of both the company and the individuals. Employees qualify for performance pay when performance targets have been exceeded based on gain-share principles. The relevant performance pool is determined based on the excess of net profit achieved above the performance targets.

The recent DPE guidelines on short-term incentives emphasised achievement of socio-economic development key performance areas like skills development, B-BBEE, enterprise development, supplier development, job creation, and employment equity. Denel has a well-integrated strategy to deliver on these focus areas, which are integrated into the key performance areas of the executives and senior managers.

Due to the current financial situation in the company, no short-term incentives were paid or accrued to the executives during the year.

LONG-TERM INCENTIVES

Denel's Board and executives are currently busy with the implementation of a a turnaround strategy to propel the organisation to long-term profitability. Due to financial constraints, the Denel Group is currently not implementing a long-term incentive scheme, but the objective of the company is to introduce such a scheme for all qualifying executives in the near future.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The PR&T Committee assists the Board in reviewing non-executive directors' fees for discussion with the Shareholder. Market benchmarks and the DPE's remuneration guidelines for SOCs are used to determine and make recommendations on non-executive directors' fees. Remuneration for non-executive directors is based on the Shareholder's remuneration guidelines, approved by the Shareholder representative and confirmed at the AGM. The Shareholder approved a 4.5% increase in fees for non-executive directors at the AGM held on 26 September 2019. Non-executives receive a fee paid by Denel based on their attendance of meetings.

THE FOLLOWING AMOUNTS WERE EITHER PAID OR ACCRUED TO THE NON-EXECUTIVE DIRECTORS DURING THE YEAR:

COMMITTEE	2019/20	2018/19
Directors' fees paid or accrued to the non-executive directors of the group:		R'000
Ms MW Hlahla	962	941
Mr Z Kunene	-	207
Prof T Marwala	-	208
Lt Gen (retired) TT Matanzima	326	112
Mrs GT Serobe	389	616
Mr MT Sadik	1 644	842
Ms SR Rabkin	446	665
Dr SP Sibisi	268	585
Ms N Siyatula	413	504
Mr TH Magazi	751	693
Mr MM Mnisi	269	385
Ms MK Lehloenya	586	255
Dr H Nel	526	515
Gen (retired) S Nyanda	363	454
	6 943	6 983

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

PART 7

DIRECTORS' REPORT

The financial results in this report are based on the results of the Denel Group. In this context, the term "group" refers to the company, its subsidiaries and its associated companies.

The nature of the group's business is described on page 10 to 11, as well as in the operations section on page 62 to 67 of this report.

FINANCIAL AND OPERATIONAL REVIEW

THE RESULTS FOR THE FINANCIAL YEAR UNDER REVIEW CAN BE ANALYSED AS BELOW:

	GROUP	
	2020	2019
	Rm	Rm
Revenue	2 729	3 409
Gross profit/(loss)	582	(582)
Other income	132	337
Operating expenditure	(2 229)	(1 095)
Earnings before interest and tax (EBIT)	(1 515)	(1 339)
Net finance costs	(576)	(618)
Share of profits from associates	62	425
Taxation	67	63
Net profit/(loss)	(1 962)	(1 469)

The 2019/20 financial year proved another challenging year for Denel, with a total comprehensive loss of R1.962 billion for the year, compared to a loss of R1.469 (restated) billion in the previous year. The year's net loss can primarily be attributed to a delay in sales.

Denel has further been negatively impacted by the reduced margins due to under-recoveries as a result of lower operational activities and reduced margins on contracts due to liquidity shortfalls delaying payments to suppliers.

EXTERNAL INTEREST EXPENSE ON BORROWINGS

Business operations are funded through a combination of cash generated, short- and medium-term bank credit facilities, corporate bonds and commercial paper borrowings. The amount of R3.214 billion of debt is unconditionally guaranteed by the government and total debt amounted to R3.570 billion (2018/19: R3.6 billion) at year-end, resulting in external interest paid of R614 million (2018/19: R697 million). This amount excludes the unwinding of interest on long-term provision and a significant financing component as per IFRS 15. Refer to the funding section below.

DENEL MEDICAL BENEFIT TRUST

The Group provides a post-retirement medical subsidy to current and former employees who were appointed before 1 April 2000. The surplus assets in relation to the "contribution holiday" enjoyed by Denel have been included in the group's consolidated annual financial statements. The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise. Although certain businesses have been unbundled from the group, the total liability remains with Denel. Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure that the financial risk to the group terminates, while qualifying employees continue to receive the benefit.

To date, 85.8% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy. Denel will ensure that, through due process, the open-ended liability risk is mitigated in terms of the remaining beneficiaries. The actuarial value of the fund and other disclosures is provided in Note 34 of the consolidated annual financial statements.

FUNDING

Denel has a Domestic Medium-Term Note (DMTN) programme of R4.0 billion that allows for short- and medium-term debt issuance. Of the R4.0 billion, an amount of R3.43 billion is government guaranteed and the guarantee matures on 30 September 2023. The majority of the debt issued is short term, being for 12 months, and is likely to remain as such under current economic conditions. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R3.415 billion (2018/19: R3.34 billion). The debt was issued through a commercial paper. The group's borrowings are at an average interest rate of 9.9% (2018/19: 8.9%), which includes an average overnight borrowing rate of 9.9% (2018/19: 8.9%), and an average commercial paper programme interest rate of 8.51% (2018/19: 8.51%), which resulted in a borrowing cost of R652 million (2017/18: R747 million, restated) during the year.

Denel was removed from a rating of Negative Watch to Stable Outlook by the Fitch Rating Agency. The downgrade from Fitch of RSA from BB+ to BB will affect Denel's next rating review as Denel's rating is largely based on the support it receives as a government owned organisation. On 25 August 2020, Fitch further downgraded Denel' National Long-Term Rating from, 'B(zaf) to 'CC(zaf) and its Short-Term Rating from 'B'(zaf) to 'C' (zaf) due to its severely strained liquidity position, delinking it from the sovereign and rating it on a standalone credit basis.

In August 2019, Denel received R1.8 billion in recapitalisation from its shareholder. This has been utilised in the business to repay long-overdue creditors, settle debt and kickstart operations that had slowed down significantly due to suppliers requesting upfront payments under certain circumstances. Despite the recapitalisation, Denel's cash flows from operations remained negative at R811 million (2018/19: R271 million, restated) in delayed deliveries to customers due to poor contract and working capital management.

GOING CONCERN

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

- Review of the performance of the group for the year ended 31 March 2020 with a net loss of R1.96 billion (2018/19: R1.46 billion). The Board noted the continued losses incurred by the business and the impact it has on its solvency status.
- Approval of the revised corporate plan for the period 2021–2025, management's radical action plans and the improvement of Denel's performance and solvency position during the next 24 months.
- Review of the cash flow forecasts for a period of 12 months with adequate cash in the foreseeable future under the assumptions of receipt of the balance of the recapitalisation funds of R576 million, and generating own liquidity from turnaround strategic actions.
- Noting investor sentiments towards Denel regarding the bridging finance received during the year and the positive impact, albeit short lived, when the progress made on strategic actions and the support received from the Shareholder were acknowledged and Denel's rating was changed from Negative Watch to Stable Outlook in the latest Fitch Agency review. The recent

Fitch downgrade of South Africa from BB+ to BB will affect Denel's next rating review as Denel's rating is largely based on the support it receives as a state-owned entity.

- Consideration of the commercial viability of the business, including the major contracts included in the order book (R15 billion) and in the pipeline (R26 billion), and Denel's ability to execute the orders. The Board considered the non-payment of suppliers and salaries, and the impact this has had on the operations and possible erosion of technical skills with some employees exiting the business. The Board has requested management to consider all mitigating steps to ensure that Denel's sovereign capabilities and skill are maintained.
- Consideration of the mitigating steps taken by management through the implementation of the turnaround and the continual monitoring of its progress as part of the conditions of the recapitalisation. The turnaround strategy includes the strengthening of corporate governance and improving liquidity through the sale of non-core assets and the introduction of strategic equity partners. The impact of COVID-19 on this will need to be assessed, especially on the valuation of assets and the property portfolio where the rehabilitation provisions could affect fair value measurements as potential investors may want to preserve their cash reserves.
- Consideration of the existing strategic relationship between the Department of Defence and Denel. This has been demonstrated by the continued baseload work received on critical capabilities, as well as specific engagements that took place between Denel and the Chief of the Air Force and the Chief of the Army during the lockdown period, which remain ongoing. Specific actions are being put in place to support Denel through its crisis and help reposition the organisation to resume its lead position in the industry.
- The Shareholder continues to view Denel as a strategic asset and has, in the past, made a written undertaking that it will endeavour to assist the directors to maintain the company's going-concern status. It also extended the R3.34 billion guarantee from one to five years during 2018/19.

Based on the factors above, the directors are satisfied that Denel can continue to operate as a going concern. The consolidated annual financial statements were therefore prepared on this basis.

INTERNAL CONTROLS

The group has implemented a system of internal controls, which are reviewed by the Audit Committee on a quarterly basis. The Board has noted the report of the Audit Committee and is concerned with the progress made in improving the internal control environment. This has been further evidenced by the report of the auditors on this matter. The key focus is the improvement on internal controls in the following financial year.

PFMA COMPLIANCE

Section 55(2)(b)(i) of the PFMA requires the particulars of any irregular, fruitless and wasteful expenditure, as well as material losses due to criminal conduct, to be disclosed in the annual financial statements. The group identified and reported irregular expenditure of R174 million (2018/19: R321 million). The Board requested management to conduct a full audit of all material supply chain purchases and to review the irregular expenditure identified. This has resulted in the restatement of irregular expenditure at R2.9 billion in 2019. Furthermore, the implementation of an updated supply chain policy and procedures has reduced irregular expenditure recognised in 2019/20. This has encouraged the Board, while it still has to consider possible condonement and actions to be taken against individuals not found to have followed the policy and legislation.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in Note 11, 12 and 35 of the consolidated annual financial statements.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the Shareholder. Directors do not have the authority to issue shares of the company. In August 2019, Denel issued 1 000 Class B shares to its Shareholder at a par value of R1 and a share premium of R1 7999 999 999.

DIVIDENDS

No dividend was recommended for the 2019/20 financial year (2018/19: R0).

COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated annual financial statements comply with IFRS.

AUDITORS

The consolidated annual financial statements are audited by the Auditor-General of South Africa. The statutory auditor for the forthcoming year will be confirmed at the AGM.

AUDIT OUTCOME

Denel received a disclaimer opinion from the Auditor-General. The audit highlighted, among other things, the incorrect application of revenue recognition in the prior years and inadequacies in controls. The Board has appointed an external internal audit function, which it is confident will work with management to ensure an improvement in the control environment.

DENEL SOC LIMITED RESPONSES TO THE REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

GOING CONCERN

The group is required to prepare financial statements on the going concern basis as required by IAS 1 *Presentation of financial statements*. The Board is also required, in terms of the Companies Act, to consider the going concern status of the company on an ongoing basis to ensure that the company operates in compliance with the Companies Act and other legislative requirements. In the process of preparing the financial statements of the company, the board considered all these requirements in detail and all the evidence it deemed was appropriate to conclude that Denel is a going concern for the foreseeable future.

In Denel's view, having provided and discussed the matter surrounding the going concern assessment with the Auditor General and given the multiple uncertainties in the occurrence, timing and amount of cash inflows included in the cash flow forecast, the Auditor General could not conclude that Denel was a going concern.

APPLICATION OF IFRS 15 AND IFRS 9 – ACCOUNTING FOR REVENUE AND TRADE AND OTHER RECEIVABLES

Following the report of the Auditor General in the 2018-19 financial year in which it was highlighted that the processes followed in the adoption of IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial Instruments* were not adequate, the Group embarked on a comprehensive exercise to ensure that the process of adoption was redone, consistent across the group and that the necessary documentation to support the assessments were in place. This exercise was led by the Denel Corporate Office with the review of the underlying contracts and the documentation of information in the resultant position papers and impairment models built being delegated to an external advisory firm, which engaged extensively with management at each of the divisions and subsidiary entities. The processes that were followed in respect of the application of both standards involved divisional management at all stages - from the selection of contracts to be considered to the provision of information required to build the models that support the calculations for correct application of the standards.

IFRS 15 – ACCOUNTING FOR REVENUE

With respect to IFRS 15, the report of the Auditor General points out areas deemed not to have been properly accounted for, such as, the identification of significant financing components, variability in consideration, identification of performance obligations and determination of stages of completion. These are all matters that were considered in significant detail at each of the divisions and for each of the contracts that were the subject of the reviews. As such, the Board will not address the areas that are highlighted as individual cases of possible non-compliance as contained in the Auditor General's report, suffice to say that the adoption process that was followed was standardised across the various entities. In preparation for the 2021 audit and in instances where there were disagreements, Management based on their knowledge of the business and complexity of the Denel operating environment, have documented these, submitted to Auditor General and will engage further to discuss differences in technical interpretation in January 2021.

Management contends that adequate information exists to enable the Auditor General to follow the accounting that was applied and this should not have resulted in the opinion that has been issued in respect of this aspect of the financial statements.

The report of the Auditor General states that certain information was unavailable to enable their staff to confirm if the revenue earned was recorded appropriately. The process followed in determining the revenue to be recognised was based on the following:

- IFRS 15 position papers formulated in compliance to the standard;
- Implementation of a revenue model based on the above; and
- Compilation of the underlying records that support the revenue recognition.

In responding to the Auditors' queries Denel was not able to respond within the required timeframe and in other instances in the subsequent extension given. This deficiency was based on several constraints including Denel's inability to access information as result of the country and thus the company being under lockdown restrictions. The company's inability to meet the deadlines and not the non-existence of information was the main reason for the state of affairs that were faced. In certain cases where the information was subsequently available, the auditors did not have time to audit what was provided by management subsequent to the agreed timeframes.

Denel takes note of the deficiencies in the disclosures that were provided in Note 2 to the financial statements. This will be attended to in the next financial year.

IFRS 9 – ACCOUNTING FOR TRADE AND OTHER RECEIVABLES

IFRS 9 requires that an entity determine the amount of its provision for doubtful debts by estimating the amount of expected credit losses that it may suffer going forward, given the information that it has at its disposal at the point of recognising the receivables in the first instance and thereafter at each reporting date. As a group, Denel underwent a significant process of building models that enabled the company to consider the history of payments of its debtors as well as pertinent economic information that would inform the level of provisioning that would be necessary in each of the financial years under review. This process was well documented and this information was available to the Auditor General. As such, it would appear inappropriate that the audit report states that the group did not adequately account for expected credit losses for trade and other receivables due to the incorrect implementation of IFRS 9.

Denel notes the assertion made by the Auditor General that for trade and other receivables as well as other areas of our financial statements, they were unable to confirm the information provided to underlying records. Whilst there were errors in some of the information submitted to the auditors, there was insufficient time to correct all of the errors during the audit.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROLS

The report advises that the Auditor General was unable to obtain sufficient appropriate audit evidence in respect of several aspects of the Denel financial statements outside of the two matters discussed above. This has, in cases, been assigned to inadequacies in internal controls that occurred relevant to the audit. The group has been through significant financial difficulties in the recent past with high staff turnover and low morale. However, the necessary framework for the preparation of adequate financial information remains in place. There have been some delays in obtaining information that is requested but that is not in itself an indication of the lack of that information. It has also been highlighted in some instances that while information is requested in a particular format by the auditors, Management was not always able to provide it in that format but, again, it was not evidence of the lack of that information as it was available in an alternative format that would allow for effective management of the Group equally useful to the auditors.

Denel acknowledges the issues raised by the Auditor General with respect to the financial consolidation process. However, it must be noted that the underlying ERP systems at entity level worked for the full duration of the financial year under consideration. Unfortunately the financial reporting consolidation module at group-level experienced a system failure in February 2020 as we approached year end due to the number of prior period adjustments required to correct previous years' misstatements and we were unable to resolve the issues in time for the completion of the audit. The group did implement an alternative manual solution which however did not adequately deal with the intergroup eliminations, reclassification journals and some other differences. Denel is in the process of procuring an automated system that will ensure compliance to the standards, minimise manual intervention and ensure accuracy of the numbers reported.

Denel appointed Ernst & Young as the independent internal audit service provider in July 2019. The internal audit plan was finalised in October 2019 and by March 2020 the internal audit execution was not yet complete, thus the Auditor General did not rely on the internal audit work completed to date as at year end. Internal audit provides a second line of defence in terms of Denel's combined assurance model. As part of management's representation responsibilities, we confirm that People, Systems and Processes are in place at Denel and that Management is the first line of defence and does ensure that supervision and monitoring takes place, albeit that Denel does not have a formally documented management assurance process in place that we could provide to the Auditors to form part of their evidence to confirm this. Based on the Auditor General's assessment, they raised inadequacies in internal controls and more specifically on Denel's information management, and have provided management with recommendations on the improvements they require to ensure sufficient comfort over the control environment.

LAND MOBILITY TECHNOLOGY SOC LTD AND LMT RELATED COMPANIES

During the year, LMT Products a subsidiary of LMT Group was placed under business rescue. The board of LMT, resolved not to submit annual financial statements to the Auditor General for audit having considered various matters including the following:

- LMT Products which is the core business of the group and a subsidiary of LMT Holdings was placed under business rescue. This meant that LMT Holdings no longer retains control over this business;

- LMT Holdings was no longer supported by the relevant personnel with the required skill to respond to an audit as the majority of the personnel had exited the business; and
- LMT Holdings could not afford to employ employees to support the audit and the payment of an audit fee.

Having consideration of the above, Denel's management considered several actions including the secondment of resources to LMT for the preparation of the audit file and all relevant documentation. This was not possible as although the documentation was available, the audit requires the employees of LMT with the knowledge of the business processes who were no longer available as per above.

On assessment of the above, Denel Management considered the contribution of LMT Holdings' results to the Denel group and concluded that it is not material based on the percentage of LMT's assets contribution to Denel Group (below 1%) and should not have an impact on the results and position reported. Furthermore, the value of loans to LMT group companies were addressed in previous years through Denel's impairment process. The LMT Holdings financial results were consolidated in Denel's consolidated financial results.

DIRECTORATE

There were no resignations during the financial year ending 31 March 2020. Further details regarding the Board of Directors are discussed on pages 16 to 19.

GROUP COMPANY SECRETARY

The Group Company Secretary for the period under review (since 1 December 2018) was Fluidrock Co Sec (Pty) Ltd. Its business and postal addresses, which are also the addresses of the registered office of the company, are stated below:

Business address:	Postal address:
Monument Office Park	PO Box 25160
Block 5 Suite 201	Monument Park
79 Steenbok Avenue	0105
0181	South Africa
South Africa	

EVENTS AFTER REPORTING PERIOD

The annual financial statements have not been adjusted for the transactions below, but have been disclosed as they are perceived to be material to the user.

COVID-19 IMPLICATIONS

At year end, divisions and subsidiaries assessed significant accounts that will likely be impacted on by the pandemic.

COVID-19 was declared a pandemic and South Africa recorded its first case in early March 2020. On 23 March 2020, due to the pandemic hitting South Africa's shores, the South African government declared a national disaster and the country went into a hard lockdown from 27 March 2020 to 16 April 2020, which was subsequently extended to 30 April 2020. This hard lockdown meant that the whole country was shut down, inclusive of its borders, with the exception of certain essential services that could continue operating. This had a severe impact on the economy. The liquidity situation was further exacerbated by the negative impact of the COVID-19 pandemic and the hard lockdown imposed by the South African government. The liquidity constraints impacted on the payment of salaries for the months of April to July 2020, with net salaries for the months of May to July not being fully paid to employees, and the payroll third-parties statutory payments not being paid from April to July 2020.

DENSECURE

A decision was made during the prior year to transfer the company's short-term liabilities, rights and associated assets to a contingent policy with Centriq Insurance Company Limited, in accordance with the Insurance Act of 2017. The resolution to transfer was accepted by the Board of Directors of Centriq Insurance Company Limited on 25 February 2019. The company ceased writing new insurance business as of 1 April 2019. All policyholder liabilities transferred to Centriq shall absolve Densecure SOC Limited of any future obligations.

The finalisation of the process is dependent upon the approval by the Prudential Authority. The approval was subsequently granted on 31 July 2020.

Several other matters have been disclosed in Note 39 on page 238 of the annual financial statements.

PERFORMANCE AGAINST THE SHAREHOLDER'S COMPACT

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	TARGET	STATUS	COMMENT
Liquidity	Reduction of creditor backlog – with Shareholder support (recapitalisation/ guarantees)	50% reduction	Green	Creditors at 1 April 2019: R1.817 billion Creditors at 25 February 2020: R480 million Reduction of 74%
	Cash generated from operations	R1 790 million	Red	The late receipt of the recapitalisation on 31 August 2019 resulted in the delayed execution of operations, and therefore impacted on cash flow
Profitability	EBIT margin	(12.2%)	Red	The EBIT margin as at March 2020 is -45%
Strategic initiatives (in line with National Treasury's guarantee/ recapitalisation conditions)	Disposal of non-core assets (minimum of three PFMA applications per annum)	Three PFMA applications	Amber	Two applications submitted for exit of Aerostructures and divestment of shares in Hensoldt. A pre-notification letter was also submitted for the sale of the PMP Foundry as a going concern.
	Strategic partnerships and joint ventures (minimum of two pre-notifications per annum)	Two pre-notification letters	Amber	Planning Aeronautics and DVS. Process to be agreed with DPE but we have been informed that Denel can use NT's Chief Procurement Office.
	Order intake – measure current operations at strategic level (DPE assists with campaigns)	R5 billion	Amber	~ R2 billion year-to-date
Operational excellence	Achieving contracted cash flow targets on major programmes	>75%	Green	As at March 2020, Denel achieved 80% of contracted cash flows on major programmes.
Environmental impact	Development of environmental management plan	Environmental management plan approved in comprehensive report	Amber	Plan approved by EXCO, inputs received from Social and Ethics Committee

Legend

Green - Achieved
Amber - Partially achieved
Red - Achieved

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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

Company secretary

DIRECTORS' APPROVAL

The directors are of the opinion that the consolidated annual financial statements fairly present the financial position of Denel SOC Ltd and its subsidiaries and the results of their operations and cash flows for the year ended 31 March 2020.

The consolidated annual financial statements of Denel SOC Ltd for the year ended 31 March 2020, as set out on pages 124 to 240, have been prepared under the supervision of Ms Carmen Le Grange CA (SA) and were approved by the board of directors on 22 January 2021 in terms of the Companies Act and the PFMA, and are signed on their behalf by:

Ms Monhla Hlahla

Chairperson of the Board

Talib Sadik

Acting Group Chief Executive Officer

REPORT OF THE AUDIT COMMITTEE

The Audit Committee presents this report for the financial year that ended on 31 March 2020 in terms of the requirements of the PFMA, section 94(7)(f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa.

The role of the Committee is defined in its mandate and includes its statutory duties, and assistance to the Board with the oversight of financial and non-financial reporting and disclosures, internal control systems, internal and external audit functions, and combined assurance, including technology and information governance.

The Committee fulfilled all its statutory duties as required by the Companies Act. The Committee reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities contained therein.

DISCHARGE OF RESPONSIBILITIES

In discharging its responsibilities during the year under review, the Committee reviewed the following key matters:

INTERNAL CONTROLS

The Committee considered the effectiveness of internal control systems and governance, legal matters that could have a material impact on the company, and the effectiveness of the entity's compliance with legal and regulatory requirements.

The Committee has observed that the overall control environment, including internal financial controls, has not improved during the year under review. There are still concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. The Audit Committee appointed Ernst and Young as an independent service provider to provide an independent internal audit function and report on the status of internal controls across the company. The internal auditors were unable to complete their audit plan as, their engagement was quite late in the reported financial year. The Committee concluded and advised the Board that a significant improvement in the entire control environment is still required. Most of the identified control weaknesses indicated that internal financial controls are largely not working as intended regarding the financial statements' assertion of completeness and accuracy. This is, in particular, in relation to the recognition of revenue. The effectiveness of the implemented measures to improve the control environment continues to be an area of focus.

While there is a need for significant improvement, the Committee concluded that there was not a complete breakdown of internal controls, including internal financial controls.

GOING CONCERN

The Committee reviewed management's assessment of the going-concern premise of the group and the company, and recommended to the Board that the group and the company could be considered a going concern for the foreseeable future. In performing its assessment, the Committee acknowledged that Denel cannot solve its problems alone, but needs support from its shareholder, the Department of Public Enterprises. The Committee recognised the Shareholder's support to Denel through engagements and continued support by the Department of Defence, the Department of Public Enterprises and the Department of Finance through National Treasury. However, the challenges of funding for Denel remains.

The Committee assessed liquidity, taking into account the latest cash flow forecasts, management's progress in implementing the turnaround strategy and the steps taken to ensure that the repayment of debt occurs in the next 12 months. The aspects considered in the going-concern assessment have been detailed on Note 40 on page 240.

EXTERNAL AUDITORS

The Committee has satisfied itself that the external auditor, the Auditor-General of South Africa, was independent of the group, as set out in the PFMA and section 90(2)(c) of the Companies Act, 2008, as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board of Auditors.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2019/20 financial year. The Committee will consider the reappointment of the current external auditors at the AGM, in line with the legislative requirements.

INTERNAL AUDIT

The group has an outsourced internal audit function that reports directly to the Committee. In its charter, the plans are approved by the Committee to ensure that it operates independently. The Committee considered the Internal Audit Charter, annual audit plan, alignment of the audit plan with company risks, the independence and the effectiveness of the function, internal audit reports, management action plans and coordination with external auditors.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The Committee reviewed the annual consolidated financial statements of the group and company, as well as the accounting policies and practices of the group. The Committee considered the key judgments, estimates and accounting for significant transactions in the annual financial statements. Where appropriate, the Committee sought the input and views of the external auditors. The Committee accepts the audit opinion of the Auditor-General on the annual financial statements.

The Audit Committee reviewed management's plans and progress in resolving the audit findings of the 2019/20 opinion. Given the continued challenges, this will continue as a key action during 2020/21.

EXPERTISE AND KNOWLEDGE OF THE GROUP CFO AND THE FINANCE FUNCTION

The Committee reviewed the financial effectiveness of the finance function and concluded that there remains a capacity gap with the appropriate skills across Denel. The Committee further noted the Auditor General's report in its commentary about the improvements required to achieve proper record keeping, and regular processing and reconciling of transactions. The Committee will regularly review and monitor management's plans to address these deficiencies.

CONCLUSION

The Committee has evaluated the financial statements of Denel and the Group for the year ended 31 March 2020 and considers that they comply, other than the matters disclaimed in the external auditor's report, with the requirements of the Companies Act, the PFMA and the IFRS. The Committee has recommended to the Board that Denel be reported as a going concern.

The Committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2020 for approval by the Board on 22 January 2021.

MS N SIYOTULA
Chairman of the Audit Committee

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON DENEL SOC LIMITED

Report on the audit of the consolidated and separate financial statements

DISCLAIMER OF OPINION

1. I was engaged to audit the consolidated and separate financial statements of the Denel SOC Limited and its subsidiaries (the group) set out on pages 124 to 240, which comprise the consolidated and separate statement of financial position as at 31 March 2020, the consolidated and separate statement of financial performance and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the consolidated and separate financial statements of the group. Because of the significance of the matters described in the 'basis for disclaimer of opinion' section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

BASIS FOR DISCLAIMER OF OPINION

GOING CONCERN

3. The group is required to prepare financial statements on the going concern basis, as required by IAS 1, *Presentation of financial statements*. As indicated in note 40 to the consolidated and separate financial statements, the group has stated that the consolidated and separate financial statements have been prepared on the basis of accounting policies applicable to a going concern. I am unable to obtain sufficient and appropriate audit evidence to support some of the key assumptions included in the management's going concern assessment. Therefore, I am unable to confirm whether it is appropriate to prepare the consolidated and separate financial statements using the going concern basis of accounting. I was unable to confirm the going concern disclosure by alternative means. Consequently, I could not determine whether adjustments were required to the consolidated and separate financial statements and the going concern disclosure note 40 to the consolidated and separate financial statements.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

4. I was unable to obtain sufficient appropriate audit evidence regarding the elimination of intercompany transactions in the consolidated financial statements, as required by International Financial Reporting Standards (IFRS) 10, *Consolidated financial statements*. The group prepared the consolidated financial statements manually and did not have adequate processes of identifying and accurately processing intercompany elimination and reclassification journals on consolidated financial statements. I was unable to confirm the elimination of intercompany transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the following items in the consolidated financial statements:
   - Right of use asset stated at R315 million (2018-19: R0 million; 2017-18: R0 million)
   - Loan receivable stated at R0 million (2018-19: R0 million; 2017-18: R0 million)
   - Trade and other receivables stated at R705 million (2018-19: R727 million; 2017-18: R1 210 million)
   - Share premium stated at R6 751 million (2018-19: R4 951 million; 2017-18: R4 951 million)
   - Trade and other payables stated at R1 485 million (2018-19: R1 820 million; 2017-18: R2 383 million)
   - Loans and borrowings stated at R3 603 million (2018-19: R3 673 million; 2017-18: R2 807 million)
   - Advance payments received stated at R2 946 million (2018-19: R3 255 million; 2017-18: R3 904 million)
   - Revenue stated at R2 729 million (2018-19: R3 409 million; 2017-18: R6 023 million)
   - Cost of sales stated at R2 146 million (2018-19: R3 991 million; 2017-18: R5 758 million)
   - Other operating income stated at R132 million (2018-19: R337 million; 2017-18: R231 million)
   - Other operating expenses stated at R2 229 million (2018-19: R1 095 million; 2017-18: R1 723 million)
   - Finance cost stated at R744 million (2018-19: R850 million; 2017-18: R1 331 million)
   - Investment income stated at R168 million (2018-19: R232 million); 2017-18: R231 million).

5. In addition, the following financial statement items were materially misstated in the consolidated and separate financial statements and, therefore, these statements are materially misstated as they did not agree with the underlying accounting records. This was because the group did not have an adequate internal control system and processes in place to reconcile the underlying accounting records with the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustment was necessary to the following items in the consolidated and separate financial statements respectively:
   - Right of use of asset stated as R315 million and R315 million
   - Investment in associated companies stated as R1 254 million (2018-19: R1 300 million) and R394 million (2018-19: R394 million)
   - Trade and other receivables stated as R705 million (2018-19: R727 million; 2017-18: R1 210 million) and R655 million (2018-19: R697 million; 2017-18: R1 035 million)
   - Trade and other payables stated as R1 485 million (2017-18: R2 383 million) and R1 215 million (2018-19: R1 553 million 2017-18: R2 163 million)
   - Loan and borrowings stated as R3 603 million (2018-19: R3 673 million; 2017-18: R2 807 million) and R3 474 million (2018-19: R3 523 million; 2017-18: R2 803 million)
   - Deferred and Income tax receivable stated as R155 million and R67 million
   - Accumulated loss stated as R10 265 million (2018-19: R8 815 million; 2017-18: R5 730 million) and R10 720 million (2018-19: R9 286 million; 2017-18: R5 888 million)
   - Provisions stated as R836 million (2018-19: R1 213 million; 2017-18: R696 million) and R461 million (2018-19: R443 million)
   - Property, plant and equipment stated at R819 million (2018-19: R938 million) and R650 million (2018-19: R722 million; 2017-18: R668 million)
   - Revenue stated as R2 729 million (2018-19: R3 409 million; 2017-18: R6 023 million) and R2 610 million (2018-19: R3 144 million; 2017-18: R4 939 million)
   - Other operating income stated as R132 million (2018-19: R337 million; 2017-18: R231 million) and R289 million (2018-19: R228 million)
   - Other operating expenses stated as R2 229 million (2018-19: R1 095 million) and R1 524 million (2018-19: R1 926 million; 2017-18: R1 474 million)
   - Investment income stated as R168 million (2018-19: R232 million; 2017-18: R231 million) and R157 million (2018-19: R190 million; 2017-18: R213 million)
   - Cost of sales stated as R2 146 million (2018-19: R3 991 million; 2017-18: R5 758 million) and R2 264 million (2018-19: R3 376 million; 2017-18: R4 549 million)
   - Finance cost stated at R744 million (2018-19: R850 million; 2017-18: R1 331 million) and R695 million (2018-19: R750 million; 2017-18: R1 303 million)
   - Non-current assets held for sale stated at R212 million (2018-19: R153 million) and R56 million (2018-19: R56 million)
   - Loan receivable stated at R0 million and R0 million (2018-19: R0 million)
   - Irregular expenditure stated at R3 194 million (2018-19: R2 901 million; 2017-18: R2 553 million) and R1 702 million (2018-19: R1 554 million; 2017-18: R1 339 million)

6. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding the financial statements of Land Mobility Technology SOC Limited (LMT), a subsidiary of Denel SOC Limited which was consolidated into the Denel group, as neither the financial statements nor the underlying records were presented for audit purposes. I was unable to determine the impact this had on the consolidated financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements for the items listed below:
   - Cash and cash short term deposits stated at R635 million
   - Trade and other receivables stated at R705 million
   - Inventory stated at R2 167 million
   - Contract asset stated at R765 million
   - Trade and other payables stated as R1 485 million
   - Short-term borrowings stated at R333 million
   - Bank overdraft stated at R66 million
   - Contract liabilities stated at R1 367 million
   - Advance payment received stated at R2 946 million
   - Accumulated loss stated as R10 265 million
   - Irregular expenditure stated at R3 194 million.

REVENUE

7. The group did not correctly apply the principles of IFRS 15, *Revenue from contracts with customers* when recognising revenue. The group did not have proper accounting systems and documentation in place to support revenue recognised. The group did not appropriately account for significant financing components, consider variables and identify performance obligations and stage of completion, as required by IFRS 15. I was unable to determine by alternative means whether revenue had been recorded correctly.

8. Denel Aerostructures SOC Limited, which is a subsidiary of Denel SOC Limited, did not have a proper accounting system and internal controls in place to account for revenue in terms of IFRS 15 and IAS 8, *Accounting policies, changes in accounting estimates and errors*. The subsidiary did not correctly apply the IFRS 15 transitional requirements when correcting the prior period errors on revenue. In addition, the subsidiary did not apply the correct transaction prices on material contracts and was unable to provide sufficient appropriate audit evidence for the assumptions used in determining the stage of completion. I was unable to determine by alternative means whether revenue in the consolidated financial statements had been recorded correctly.

9. The group has not adequately prepared and presented material revenue disclosure items as required by IFRS 15. Note 2, 18 and 27 to the financial statements does not adequately disclose the required information in relation to contract assets, disclosures related to performance obligations, and transaction prices allocated to each performance obligation.

10. Consequently, I was unable to determine whether adjustments were necessary to revenue stated at R2 729 million (2018-19: R3 409 million; 2017-18: R6 023 million) and R2 610 million (2018-19: R3 144 million; 2017-18: R4 939 million) in the consolidated and separate financial statements. The following account balances, classes of transactions and disclosure notes in the consolidated and separate financial statements have been affected by the possible impact of the paragraphs highlighted above:
    - Cost of sales stated at R2 146 million (2018-19: R3 991 million; 2017-18: R5 758 million) and R2 264 million (2018-19: R3 376 million; R2017-18: R4 549 million) in note 3 to the consolidated and separate financial statements, respectively.
    - Inventories stated at R2 167 million (2018-19: R2 546 million; 2017-18: R3 049 million) and R1 924 million (2018-19: R2 220 million: 2017-18: R2 625 million) in note 16 to the consolidated and separate financial statements, respectively.
    - Trade and other receivables stated at R705 million (2018-19: R727 million; 2017-18: R1 210 million) and R655 million (2018-19: R697 million: 2017-18: R1 035 million) in note 17 to the consolidated and separate financial statements, respectively.
    - Amounts payable on contracts stated at R80 million (2018-19: R51 million; 2017-18: R33 million) and R80 million (2018-19: R51 million: 2017-18: R33 million) in the consolidated and separate financial statements, respectively.
    - Contract assets stated at R765 million (2018-19: R953 million; 2017-18: R1 503 million) and R620 million; (2018-19: R528 million; 2017-18: R1 390 million) in note 18 to the consolidated and separate financial statements, respectively.
    - Contract liability stated at R1 367 million (2018-19: R1 322 million; 2017-18: R436 million) and R1 242 million (2018-19: R1 175 million; 2017-18; R641 million) in note 27 to the consolidated and separate financial statements, respectively.
    - Provisions stated at R836 million (2018-19: R1 213 million: 2017-18; R696 million) and R461 million (2018-19: R443 million; 2017-18; R453 million) in note 25 to the consolidated and separate financial statements, respectively.
    - Advance payment received stated at R2 946 million (2018-19: R3 255 million: 2017-18; R3 904 million) and R2 836 million (2018-19: R3 102 million; 2017-18; R3 713 million) in note 24 to the consolidated and separate financial statements, respectively.
    - Other operating expenses stated at R2 229 million (2018-19: R1 095 million) and R1 524 million (2018-19: R1 926 million) in note 3 to the consolidated and separate financial statements, respectively.
    - Finance cost stated at R744 million (2018-19: R850 million) and R695 million (2018-19: R750 million) in note 6.1 to the consolidated and separate financial statements, respectively.
    - Note 02, *Segment reporting* in the consolidated and separate financial statements.
    - Note 32, *Related parties* in the consolidated and separate financial statements.
    - Note 33, *Financial risk management* in the consolidated and separate financial statements.
    - Note 37, *Correction of prior period errors* in the consolidated financial statements.
    - Note 37, *Restatement of financial information* previously presented in the consolidated and separate financial statements.
    - Note 28.3, Contract losses in the consolidated and separate financial statements.

INVENTORIES

11. Denel SOC Limited did not provide sufficient and appropriate audit evidence to support the work in progress, goods in transit and assumptions made for the write-down of inventory to the lower of cost or net realisable value, as required by IAS 2, *Inventories*, as the entity did not have adequate internal controls to

maintain records to support the inventory balance stated in the separate financial statements. I was unable to confirm the recorded inventories balance by alternative means. In addition, the group did not correctly apply the principles of IAS 2 relating to standard costing as the standard costing variances were calculated incorrectly and standard cost set did not approximate the actual amounts. Furthermore, differences were identified between underlying stock records and inventory items physically verified. I was unable to determine the impact on the inventory balance in note 16 to the consolidated and separate financial statements because it was impracticable to do so.

12. I was unable to obtain sufficient appropriate audit evidence that Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, accounted for work in progress recorded in the consolidated financial statements in accordance with IAS 2 due to the status of the accounting records of the subsidiary. The weighted average determination was not adequately configured in the entity's financial system as controls to ensure that raw materials are issued to work in progress at the weighted average amount were not in place.

13. Denel Aerostructures SOC Limited, a subsidiary of Denel SOC Limited, did not provide sufficient appropriate audit evidence that the subsidiary accounted for inventory in accordance with IAS 2 due to the status of the accounting records of the subsidiary. The subsidiary did not maintain sufficient appropriate audit evidence to support the assumptions made for the write-down of inventory to the lower of cost or net realisable value, as required by IAS 2. In addition, some inventory items could not be physically verified and those inventory items that could be physically verified could not be traced to the underlying accounting records of the subsidiary, which has a material impact on the consolidated financial statements of the group. Furthermore, I was unable to verify the work in progress and whether it was calculated correctly by alternative means.

14. Consequently, I was unable to determine whether adjustments were necessary to inventories stated at R2 167 million (2018-19: R2 546 million; 2017-18: R3 049 million) and R1 924 million (2018-19: R2 220 million; R2 625 million) in note 16 to the consolidated and separate financial statements, respectively. The following class of transaction and disclosure note in the consolidated and separate financial statements have been affected by the possible impact highlighted above:
    - Cost of sales stated at R2 146 million (2018-19: R3 991 million; 2017-18: R5 758 million) and R2 264 million (2018-19: R3 376 million; 2017-18: R4 549 million) in note 3 to the consolidated and separate financial statements, respectively.
    - Correction of prior period error note 37 to the consolidated and separate financial statements.

COST OF SALES

15. Denel Aerostructures SOC Limited, a subsidiary of Denel SOC Limited, recognised provisions for onerous contracts of R434 million (2018-19: R72 million) and subsequently reversed this against cost of sales instead of other operating expenses in the financial statements of the subsidiary, as required by IAS 2, *Inventories,* which resulted in cost of sales disclosed in note 3 to the consolidated financial statements being understated by R434 million (2018-19: R72 million). In addition, I was unable to obtain sufficient appropriate audit evidence that cost of sales was accounted for in the consolidated and separate financial statements in accordance with IAS 1, *Presentation of financial statements,* as some transactions could not be substantiated by supporting audit evidence. I was unable to confirm cost of sales by alternatives means. Consequently, I was unable to determine whether any adjustments relating to cost of sales, stated at R2 146 million (2018-19: R3 991 million) and R2 264 million (2018-19: R3 376 million); other operating expenses, stated at R2 229 million (2018-19: R1 095 million) and R1 524 million (2018-19: R1 926 million); and trade and other payables, stated at R1 485 million (2018-19: R1 820 million) and R1 215 million (2018-19: R1 553 million) in notes 3 and 26 to the consolidated and separate financial statements, were necessary.

PROPERTY, PLANT AND EQUIPMENT

16. The group did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date, as required by IAS 16, *Property, plant and equipment.* As a result, some assets reached zero book values while still in use. Furthermore, the group did not present the impact of changes in estimates relating to useful lives and residual values as required by IAS 8, *Accounting policies, changes in accounting, estimates and errors* in the consolidated and separate financial statements.

17. In addition, componentisation of plant and machinery was not considered by management and inconsistencies were identified during the review of management assumptions as the assumptions were not in line with the principles of IAS 16. Additionally, the group did not adequately assess property, plant and equipment for

impairment at the reporting date in accordance with IAS 36, *Impairment of assets*, even though indicators of possible impairment considerations existed. I was unable to determine the exact impact of management's failure to properly consider the requirements of IAS 16 and IAS 36, as it was impracticable to do so.

18. I was unable to obtain sufficient appropriate audit evidence relating to the revaluation surplus in the separate financial statements disclosed in the property, plant and equipment balance due to the poor status of accounting records. In addition, I was unable to confirm some of the plant and equipment physically. I was unable to confirm property, plant and equipment disclosed in note 8 by alternative means.

19. Consequently, I was unable to determine the impact on the net carrying amount of property, plant and equipment stated at R819 million (2018-19: R938 million; 2017-18: R1 103 million) and R650 million (2018-19: R722 million ; 2017-18: R668 million); depreciation stated at R114 million (2018-19: R76 million; 2017-18: R137 million) and R64 million (2018-19: R50 million; 2017-18: R103 million), in notes 3 and 8 to the consolidated and separate financial statements, respectively.

INTANGIBLE ASSETS

20. I was unable to obtain sufficient appropriate audit evidence regarding the assumptions used by Denel SOC Ltd to support the useful lives and residual values assessment performed according to IAS 38 *Intangible assets,* and audit evidence relating to additions for software licences due to the poor status of accounting records. I was unable to confirm by alternative means whether intangible assets relating to Denel SOC Ltd were disclosed correctly. Consequently, I was unable to determine the impact on the net carrying amount of intangible assets stated at R44 million (2018-19: R54 million) and R42 million (2018-19: R50 million) disclosed in note 10 to the consolidated and separate financial statements, respectively.

PROVISIONS

21. I was unable to obtain sufficient appropriate audit evidence for amounts recognised as provisions for warranties as management's assumptions could not be adequately supported. I was unable to confirm provisions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to provisions stated at R836 million (2018-19: R1 213 million) and R461 million (2018-19: R443 million) in note 25 to the consolidated and separate financial statements.

TRADE AND OTHER RECEIVABLES

22. The group did not adequately account for expected credit losses for trade and other receivables due to incorrect implementation of IFRS 9, *Financial instruments*. Furthermore, the effect of the Covid-19 pandemic was not taken into account when recognising and measuring the expected credit losses. In addition, data used in the calculation could not be confirmed and did not agree to the trade and other receivables balance stated in note 17 to the consolidated and separate financial statements. Furthermore, the group did not adequately disclose the qualitative and quantitative information supporting the allowance for expected credit losses used by management, as required by IFRS 9 and IFRS 7, *Financial instruments disclosure* in note 17 to the consolidated and separate financial statements.

23. I was unable to obtain sufficient appropriate audit evidence that items recognised as trade and other receivables by Denel Vehicle Systems (DVS), a subsidiary of Denel SOC Limited, met the definition of prepayments as per IAS 1, *Presentation of financial statements* and the *Conceptual framework for financial reporting,* as the transactions could not be substantiated by supporting audit evidence. I was unable to confirm the prepayments by alternative means.

24. Consequently, I was unable to determine whether any adjustments were necessary to trade and other receivables stated at R705 million (2018-19: R727 million; 2017-18: R1 210 million) and R 655 million (2018-19: R697 million; 2017-18: R1 035 million) in note 17 to the consolidated and separate financial statements, respectively.

CONTRACT ASSETS

25. The group did not adequately account for expected credit losses for the valuation of the contract assets due to incorrect implementation of IFRS 9, Financial instruments. Furthermore, the effect of the Covid-19 pandemic was not taken into account when recognising and measuring the expected credit losses. In addition, there were inconsistencies on the prime rate used for the calculation of expected credit losses. Furthermore, the group did not adequately disclose the qualitative and quantitative information supporting the allowance for expected credit losses used by management, as required by IFRS 9 and IFRS 7, Financial instruments disclosure, in note 18 to the consolidated and separate financial statements. I was unable to confirm by alternative means whether contract assets were recorded correctly. Consequently, I was unable to determine whether any adjustment was necessary to contract assets stated at R765 million (2018-19: R953 million; 2017-18:

R1 503 million) and R620 million (2018-19: R528 million; 2017-18: R1 390 million) in note 18 to the consolidated and separate financial statements, respectively.

INVESTMENTS IN SUBSIDIARIES

26. Denel SOC Limited did not correctly apply the requirements of IAS 36, *Impairment of assets* while performing an impairment assessment for the investment in DVS. There were other indicators of impairment that the public entity did not consider which would cause an impairment of investment in subsidiaries. I was unable to obtain sufficient appropriate audit evidence by alternative means in the matters described above. Consequently, I was unable to determine whether any adjustment was necessary to the investments in subsidiaries stated at R366 million (2018-19: R366 million; 2017-18: R1 580 million) in note 11 to the separate financial statements.

INVESTMENTS IN ASSOCIATED COMPANIES

27. The group did not correctly account for gains and losses on intragroup transactions between Denel SOC Limited and the associate companies, as required by IAS 28, *Investments in associates and joint ventures* due to the incorrect application of IAS 28 principles. In addition, I was unable to obtain sufficient appropriate audit evidence that all intragroup transactions had been eliminated, as the group did not have adequate system to record and retain such information.

28. In addition, the group did not account for the post-acquisition change in hedging reserve from Rheinmetall Denel Munition (Proprietary) Limited due to poor accounting records, which had resulted in an understatement of investment in associated companies stated in note 12.

29. I was unable to obtain sufficient appropriate audit evidence by alternative means in the matters described above. Consequently, I was unable to determine whether any adjustment was necessary to the following items as stated in the consolidated and separate financial statements:
    - Investments in associated companies stated at R1 254 million (2018-19: R1 300 million; 2017-18: R1 113 million) and R394 million (2018-19: R394 million; 2017-18: R450 million) in note 12 to the consolidated and separate financial statements, respectively.
    - Share of profit/loss in associated companies stated at R62 million (2018-19: R425 million; 2017-18: R226 million) as per note 12.2 to the consolidated financial statements.

RIGHT-OF-USE ASSET

30. Denel SOC Limited did not calculate the right-of-use asset using the present value of remaining lease payments, as required per IFRS 16, Leases. In addition, the public entity did not depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term due to misinterpretation of requirements of IFRS 16. Furthermore, the group incorrectly disclosed non-cancellable leases in the consolidated and separate financial statements, which is not in line with IFRS 16 disclosure requirements. I was unable to the right-of-use asset by alternative means. Consequently, I was unable to determine the impact on the right-of-use asset, stated at R315 million; depreciation stated at R3 million; non-cancellable leases stated at R167 million; and change in accounting policy in note 31 and note 38 to the consolidated and separate financial statements, respectively, because it was impracticable to do so.

LEASE LIABILITY

31. Denel SOC Limited did not calculate lease liability using the present value of remaining lease payments, in contravention of IFRS 16, *Leases* due to misinterpretation of requirements of IFRS 16. I was unable to determine the impact on the lease liability, stated at R315 million, and finance costs, stated at R744 million, in note 6 to the consolidated and separate financial statements, respectively, because it was impracticable to do so.

NON-CURRENT ASSETS HELD FOR SALE

32. The group did not correctly account for the assets classified as held for sale relating to its subsidiary, Denel Aerostructures, according to IFRS 10, *Consolidated financial statements*. Non-current asset held for sale disclosed in note 21 to the consolidated financial statements is overstated by R34 million, and property, plant and equipment is understated by R34 million because the inter-group did not account for these assets correctly.

RETIREMENT BENEFIT OBLIGATION

33. The group did not correctly disclose in terms of IAS 19, *Employee benefits* the net actuarial gains and losses on the net defined benefit asset, resulting the net benefit income being overstated by R95 million (2018-19: R102 million) as disclosed in note 34 to the consolidated and separate financial statements terms of IAS 19, *Employee benefits,* due to inadequate internal controls implemented by the group.

34. The group did not adequately present the required disclosures in accordance with IAS 19. Note 34 to the financial statements did not disclose the disaggregated fair values of the planned assets into classes that distinguish the nature and risk of the planned assets, subdividing each class of planned assets into those that have quoted market price in an active market and those that do not.

OPERATING EXPENDITURE

35. Denel SOC Limited did not correctly account for the operating expenses due to a lack of adequate financial recording and reconciliation disciplines, resulting in the understatement of operating expenses. I was unable to determine the impact on operating expenses, stated at R2 229 million and R1 524 million in note 3 to the consolidated and separate financial statements, respectively, as it was impracticable to do so.

CONTINGENT LIABILITIES

36. I was unable to obtain sufficient appropriate audit evidence that the group accounted for contingent liabilities in accordance with requirements of IAS 37, *Provisions, contingent assets and contingent liabilities*. I was not provided with the relevant legal confirmations requested and the group amounts were not disclosed under note 28. In addition, the group did not maintain accurate and complete records of the contractual information used to determine performance guarantees disclosed in note 28.1. I was unable to confirm by alternative means whether contingent liabilities were disclosed correctly.

37. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for contingent liabilities (guarantees) stated at R0 million as no amount for the consolidated financial statements was disclosed [(2018-19: R0 million; 2017-18: R0 million) and R3 522 million (2018-19: R4 779 million; 2017-18: R5 427 million)] in note 28.1, and contingent liabilities (litigation) stated at R0 million in note 28.2 to the consolidated and separate financial statements, respectively.

CORRECTION OF PRIOR PERIOD ERRORS

38. The group did not calculate correctly the correction of prior period errors as presented in note 37 to the consolidated and separate financial statements. As described in note 37 to the consolidated and separate financial statements, the restatements were made to correct prior year misstatements, but these restatements were not accurate. Furthermore, prior period errors were also not corrected in the years in which the errors occurred in order to comply with the requirements of IAS 8, *Accounting policies, changes in accounting estimates and errors*. In addition, I was unable to obtain sufficient appropriate audit evidence regarding the company amounts relating to the correction of prior period errors as these were not disclosed.

39. I was unable to obtain sufficient appropriate audit evidence by alternative means in the matters described above. Consequently, I was unable to determine whether any adjustment was necessary for each financial statement item affected as disclosed in correction of prior period errors per note 37 to the consolidated and separate financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

40. The group did not adequately disclose the nature of and risks arising from financial instruments to which they were exposed during the period and at the end of the period, and how they were managing those risks, in the financial risk management note 33 to the consolidated and separate financial statements, in accordance with IFRS 7, *Financial instruments disclosure*. The group did not disclose sensitivity analyses for market risks, nor the principles and methods used to arrive at the fair values and the effect of prior period errors. Furthermore, the group could not provide the basis and the supporting documentation for the fair values disclosed in note 33 to the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustments were necessary to note 33 of the consolidated and separate financial statements.

SEGMENT REPORTING

41. The group did not adequately prepare and disclose segment reporting, as required by IFRS 8, *Operating segments*. Misstatements were identified when comparing differences in note 2 to the consolidated financial statements to the underlying data. There were multiple errors in segments information reported. I was unable to determine the full extent of the errors in the segment reporting note 2 to the consolidated financial statements as it was impracticable to do so.

RELATED PARTIES

42. The group has not adequately prepared and disclosed related-party transactions. The group concluded extensive related-party transactions within the group, as well as with other government entities, contrary to the requirements of IAS 24, *Related party disclosures,* where management did not fully disclose the group's related-party relationships nor the transactions and balances with these parties and some of the remuneration of key management personnel in note 32 of the consolidated and separate financial statements.

IRREGULAR EXPENDITURE

43. Section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999) (PFMA) requires the group to include particulars of all irregular expenditure incurred in the financial statements. The group did not include all irregular expenditure incurred in the notes to the consolidated and separate financial statements. This was because the group did not have adequate controls to maintain complete records of irregular expenditure. I was unable to determine the full extent of the misstatement of the irregular expenditure disclosed at R3 194 million (2018-19: R2 901 million and 2017-18: R2 553 million) and R1 702 million (2018-19: R1 554 million and 2017-18: R1 339 million) in note 36 to the consolidated and separate financial statements, as it was impracticable to do so.

FRUITLESS AND WASTEFUL EXPENDITURE

44. The group did not correctly disclose the fruitless and wasteful expenditure due to adjustments that were processed by the company and not for the group. This resulted in fruitless and wasteful expenditure being overstated by R47 million. Consequently, fruitless and wasteful expenditure included in note 36 to the consolidated financial statements is overstated by R47 million.

CASH FLOW STATEMENT

45. The group did not correctly prepare and disclose the cash flows statement, as required by IAS 7, *Statement of cash flows*. There were multiple errors in determining cash flows in the cash flow statement. I was unable to determine the full extent of the errors in the net cash flows as indicated below in the cash flow statement as it was impracticable to do so.
    - Net cash flows from operating activities, stated at R1 392 million (negative) (2018-19: R889 million (negative); 2017-18, R2 407 million) and R323 million (2018-19: R492 million; 2017-18: R397 million).
    - Net cash flows from investing activities, stated at R0 million (2018-19: R18 million (negative); 2017-18: R71 million (negative)) and R0 million (2018-19: R30 million (negative); 2017-18: R76 million (negative).
    - Net cash flows from financing activities, stated at R1 421 million (2018-19: R216 million; 2017-18: R3 059 million (negative)) and R220 million (negative) (2018-19: R1 085 million (negative); 2017-18 R787 million (negative)).

DEFERRED TAX AND INCOME TAX

46. The group did not have an adequate system in place to ensure that the tax loss calculated, as well as the deferred tax calculation submitted for auditing, was supported by sufficient appropriate audit evidence. I was unable to determine the correct adjustments to the tax loss and other temporary differences, as required by IAS 12, *Income taxes,* because it was impracticable to do so. Furthermore, the group did not disclose the required information on the initial adoption of IFRIC 23, *Uncertainty of tax treatments* and impact of the new standard, as required by IAS 8, *Accounting policies, changes in accounting estimates and errors* and IAS 1, *Presentation of financial statements*.

47. In addition, Denel Vehicle Systems (DVS), a subsidiary of Denel SOC Limited, deducted the counter-trade provision, which is prohibited by section 23 of the Income Tax Act in the calculation of the taxable income, and did not claim tax allowances against taxable income in line with section 12C of the Income Tax Act 58 of 1962 (Income Tax Act). I was unable to quantify the impact of the misstatement as it was impracticable to do so.

48. Consequently, I was unable to determine whether any adjustments were necessary to deferred tax asset stated at R155 million (2018-19: R83 million; 2017-18: R17 million) and income tax expense stated at R67 million (2018-19: R63 million; R2017-18: R7 million) in note 15 and note 7 to the consolidated financial statements, respectively.

LOANS AND BORROWINGS

49. I was unable to obtain sufficient appropriate audit evidence regarding the loans and borrowings balance in the financial statements of the group, as no financial information was presented for audit purposes. I was unable to audit the loans and borrowings balance, as included in the consolidated and separate financial statements, by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to loans and borrowings stated at R3 603 million (2018-19: R3 673 million) and R3 474 million (2018-19: R3 523 million) in note 23 to the consolidated and separate financial statements, respectively.

TRADE AND OTHER PAYABLES

50. Denel SOC Limited did not correctly account for trade and other payables due to the incorrect classification of the dividend income in the balance of trade and other payables, which resulted in an overstatement in trade and other payables of R47 million.

51. In addition, I was unable to obtain sufficient appropriate audit evidence that items recognised on DVS, a subsidiary of Denel SOC Limited, as accruals and other payables met the definition of a liability as per IAS 1, *Presentation of financial statements* and the *Conceptual framework for financial reporting*, due to the poor status of the accounting records. I was unable to confirm the accruals and other payables by alternative means.

52. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables stated at R1 485 million (2018-19: R1 820 million) and R1 215 million (2018-19: R1 553 million) in note 26 to the consolidated and separate financial statements.

KEY AUDIT MATTERS

53. Except for the matters described in the basis for disclaimer of opinion, I have determined that there are no key audit matters to communicate in my report.

EMPHASIS OF MATTER

54. I draw attention to the matter below. My opinion is not further modified in respect of this matter.

FINANCIAL DISTRESS CONSIDERATIONS

55. As disclosed in note 40 to the financial statements, the board considered the financial position of Denel SOC Limited and has assessed and determined that the company is not financially distressed as defined in section 128(1)(f) of the Companies Act of 2008 for the period ended 31 March 2020.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

56. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the applicable financial reporting framework and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

57. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

58. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

59. I am independent of the public entity in accordance with sections 290 and 291 of the *Code of ethics for professional accountants* and parts 1 and 3 of the *International code of ethics for professional accountants* (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA codes), as well as the ethical requirements relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

INTRODUCTION AND SCOPE

60. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic pillars presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

61. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

62. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic pillars presented in the annual performance report of the public entity for the year ended 31 March 2020:

STRATEGIC PILLAR	PAGES IN THE ANNUAL PERFORMANCE REPORT
Strategic pillar 2 – Operational excellence and strategic initiatives	107

63. The material findings in respect of the usefulness and reliability of the selected strategic pillars are as follows:

Strategic Pillar 2 – Operational excellence and strategic initiatives

Order intake – The value of new orders secured within the financial year

64. The achievement for target order intake (the value of new orders secured within the financial year) reported in the annual performance report was R2 billion. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of R1,6 billion. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement as supporting information was not submitted for audit. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the achievement of R2 billion as reported in the annual performance report.

ACHIEVING CONTRACTED CASH FLOW TARGETS ON MAJOR PROGRAMMES

65. I was unable to obtain sufficient appropriate audit evidence for the achievement of 80% reported against the target of 75% in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 80% as reported in the annual performance report.

STRATEGIC PARTNERSHIP AND JOINT VENTURES (MINIMUM OF 2 PRE-NOTIFICATION LETTERS PER ANNUM)

66. I was unable to obtain sufficient appropriate audit evidence for the reported achievement against the target of 2 pre-notification letters in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required in the annual performance report.

OTHER MATTERS

67. I draw attention to the matter below:

ACHIEVEMENT OF PLANNED TARGETS

68. Refer to the annual performance report on page 107 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 99 to 108 of this report.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

69. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

70. The material findings on compliance with specific matters in key legislation are as follows:

ANNUAL FINANCIAL STATEMENTS

71. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of non-current assets, liabilities, other income and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of opinion.

EXPENDITURE MANAGEMENT

72. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b) (ii) of the PFMA. As reported in the basis for the disclaimer of opinion, the value disclosed in note 36 of the financial statements does not reflect the full extent of the irregular expenditure incurred. Contract extensions exceeding the 15% threshold without the approval of National Treasury had caused more than 50% of the disclosed irregular expenditure.

73. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer of opinion, the value disclosed in note 36 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred.

PROCUREMENT AND CONTRACT MANAGEMENT

74. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as management could not provide the information timeously for audit purposes due to poor record keeping.

75. Some of the goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.

76. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

CONSEQUENCE MANAGEMENT

77. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 51(1) (e) (iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

78. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into fruitless and wasteful expenditure.

INTERNAL CONTROL DEFICIENCIES

79. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

80. The final financial statements were submitted by the accounting authority for auditing; however, there was a lack of credible financial reporting throughout the year to enable leadership to review and take appropriate and timeous corrective action where required.

81. There was a lack of adequate and regular review of existing policies and failure to ensure the completeness of policies to address critical changes in laws, accounting standards and regulations, which affected implementation and compliance throughout the group.

82. The action plans developed were inadequate and inappropriate to address the internal control deficiencies identified, as evidenced by the significant misstatements identified during the testing of prior year errors. There was a lack of monitoring of the action plans designed by management to ensure that corrective steps were taken and to avoid the weaknesses that were identified during the previous audits.

83. Denel's IT policies were inadequately designed and outdated, which led to the inadequacy and insecure configuration of systems; patches and antivirus programs not being effectively managed; misalignment between implemented processes and those defined in policies for user access management; and data backup processes as well as firewalls not being adequately managed.

84. The public entity lacks a proper record-keeping system to ensure that information is readily available when requested for audit.

85. The public entity still lacks a culture of basic financial management disciplines and adherence to good controls.

86. The accounting authority did not implement adequate controls to detect and prevent non-compliance with legislation.

87. The effective functioning of the audit committee and internal audit has been hampered by a lack of credible information to fulfil their oversight role in respect of comprehensive and appropriate assessment of the internal controls around financial and performance reporting which led to stagnation of the audit outcomes.

OTHER REPORTS

88. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

INVESTIGATIONS

89. Allegations of maladministration regarding supply chain management and other improper conduct highlighted in the state capture report have been brought to the attention of those charged with governance. As at the date of this report, there are some investigations that are still ongoing and some that were completed during the year.

AUDIT – RELATED SERVICE

90. At the request of Denel SOC Limited, limited assurance engagements were conducted during the year under review on the compliance review relating to proposed issues by Denel SOC Limited (the issuer) with the relevant provisions of the commercial paper regulations (Government Notice 2172 published in *Government Gazette No. 16167* of 14 December 1994) issued by the registrar of banks (the notice), as required by paragraph 3(5)(j) of the notice.

Auditor-General

Auditor-General
Pretoria

26 January 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Notes	GROUP 2019/20 R'm	GROUP 2018/19 Restated* R'm	GROUP 2017/18 Restated* R'm	COMPANY 2019/20 R'm	COMPANY 2018/19 Restated* R'm	COMPANY 2017/18 Restated* R'm
ASSETS							
Non-current assets		3,670	3,373	3,084	2700	2,438	3,526
Property, plant and equipment	8	819	938	1,103	650	722	668
Right of use asset		315	-	-	315	-	-
Investment properties	9	871	844	794	859	832	784
Intangible assets	10	44	54	57	42	50	43
Investments in subsidiaries and divisions	11	-	-	-	366	366	1,580
Investments in associated companies	12	1,254	1,300	1,113	394	394	450
Loan receivable	13	-	-	-	-	-	-
Advance payments made	14	-	-	-	17	17	-
Deferred tax assets	15	155	83	17	-	-	-
Non current held for sale	21	212	153	-	56	56	-
Retirement benefit asset		-	-	-	-	-	-
		-	-	-	-	-	-
Current assets		4,855	5,347	7,705	4,297	4,377	6,736
Inventories	16	2,167	2,546	3,049	1,924	2,220	2,625
Trade and other receivables	17	705	727	1,210	655	697	1,035
Contract assets	18	765	953	1,503	620	528	1,390
Advance payments made	14	382	390	440	335	352	409
Post retirement medical aid		-	-	-	-	-	-
Other financial assets	19	189	113	193	188	113	185
Cash and short-term deposits	20	635	606	1,296	570	467	1,090
Income tax receivables		11	12	13	4	-	3
		-	-	-	-	-	-
Total assets		8,525	8,719	10,789	6,997	6,815	10,262

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19 Restated*	2017/18 Restated*	2019/20	2018/19 Restated*	2017/18 Restated*
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
EQUITY AND LIABILITIES							
Equity							
Share capital	22	1,225	1,225	1,225	1,225	1,225	1,225
Share premium	22	6,751	4,951	4,951	6,751	4,951	4,951
Capital invested		(19)	-	-	(19)	-	-
Reserves		30	33	30	30	30	30
Accumulated loss		(10,265)	(8,815)	(5,730)	(10,720)	(9,286)	(5,888)
		(2,277)	(2,605)	477	(2,732)	(3,079)	319
Non-controlling interest		(17)	(94)	(94)	-	-	-
Total equity		(2,277)	(2,699)	383	(2,732)	(3,079)	319
Liabilities							
Non-current liabilities		3,189	3,277	2,680	3,064	2,871	2,483
Loans and borrowings	23	438	433	311	420	421	298
Advance payments received	24	1,945	2,170	1,875	1,945	2,144	1,875
Provisions	25	407	620	458	302	253	274
Deferred tax liabilities	15	4	4	3	2	2	2
Amounts payable on contracts		80	51	33	80	51	33
Leased liability		315	-	-	315	-	-
Current liabilities		7,614	8,141	7,726	6,664	7,023	7,460
Amounts payable on contracts		-	-	-	-	-	-
Trade and other payables	26	1,485	1,820	2,383	1,215	1,553	2,163
Contract liabilities	27	1,367	1,322	436	1,242	1,175	641
Loans and borrowings	23	3,165	3,240	2,496	3,054	3,102	2,505
Other financial liabilities	19	143	41	135	97	34	135
Advance payments received	24	1,001	1,085	2,029	891	958	1,838
Current tax payable		8	6	1	7	-	-
Provisions	25	429	593	238	159	190	179
Preference dividends payable		16	-	-	-	-	-
Bank overdraft		-	35	8	-	10	-
Post retirement medical aid		-	-	-	-	-	-
Liabilities directly associated with assets held for sale		-	-	-	-	-	-
Total liabilities		10,803	11,419	10,407	9,728	9,894	9,943
Total equity and liabilities		8,525	8,719	10,789	6,996	6,815	10,262

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

AS AT 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
Revenue	2	2,729	3,409	6,023	2,610	3,144	4,939
Cost of sales	3	(2,146)	(3,991)	(5,758)	(2,264)	(3,376)	(4,549)
Gross (loss) profit		582	(582)	265	347	(232)	390
Other operating income	4	132	337	231	289	228	515
Other operating expenses	3	(2,229)	(1,095)	(1,723)	(1,524)	(1,926)	(1,474)
Operating (loss) profit		(1,515)	(1,339)	(1,228)	(888)	(1,930)	(569)
Finance costs	6.1	(744)	(850)	(1,331)	(695)	(750)	(1,303)
Investment income	6.2	168	232	231	157	190	213
Share of profit/(loss) in associated companies	12	62	425	226	-	-	-
Loss before tax		(2,028)	(1,532)	(2,102)	(1,426)	(2,490)	(1,659)
Taxation	7	67	63	(7)	(0)	(1)	-
Loss for the year		(1,962)	(1,469)	(2,109)	(1,427)	(2,491)	(1,659)
Other comprehensive income							
Total comprehensive loss for the year		(1,962)	(1,469)	(2,109)	(1,427)	(2,491)	(1,659)
Total comprehensive loss attributable to:							
Owners of the parent		(1,962)	(1,469)	(2,109)	(1,427)	(2,491)	(1,659)
Non-controlling interest		-	-	-	-	-	-
		(1,962)	(1,469)	(2,109)	(1,427)	(2,491)	(1,659)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY								
		Share capital	Preference shares	Share premium	Investment capital	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Non-controlling interest	Total equity
Notes		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
	GROUP									
	2018									
	Balance at 1 April	1,225	-	4,951	-	30	(5,650)	556	(105)	451
	Changes in accounting policies	-	-	-	-	-	-	-	-	-
	Adjustments	-	-	-	-	-	2,024	2,024	-	-
	Balance at 1 April (restated)	1,225	-	4,951	-	30	(3,626)	2,580	(105)	2,475
	Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-
	Total comprehensive income	-	-	-	-	-	(2,104)	(2,104)	11	-
	Profit/(loss) for the year	-	-	-	-	-	(2,104)	(2,104)	11	-
	Other comprehensive income	-	-	-	-	-	-	-	-	-
	Balance as at 31 March 2018	1,225	-	4,951	-	30	(5,730)	476	(94)	382

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY								
		Share capital	Preference shares	Share premium	Investment capital	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Non-controlling interest	Total equity
Notes		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
	GROUP									
	2019									
	Balance at 1 April	1,225	-	4,951	-	30	(5,730)	476	(94)	382
	Changes in accounting policies	-	-	-	-	-	-	-	-	-
	Adjustments	-	-	-	-	-	(1,612)	-	-	-
	Balance at 1 April (restated)	1,225	-	4,951	-	30	(7,342)	(1,136)	(94)	(1,230)
	Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-
	Total comprehensive income	-	-	-	-	-	(1,469)	(1,469)	-	-
	Profit/(loss) for the year	-	-	-	-	-	(1,469)	(1,469)	-	-
	Other comprehensive income	-	-	-	-	-	-	-	-	-
	Balance as at 31 March 2019	1,225	-	4,951	-	30	(8,811)	(2,605)	(94)	(2,699)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY								
		Share capital	Preference shares	Share premium	Investment capital	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Non-controlling interest	Total equity
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
GROUP										
2020										
Balance at 1 April		1,225	-	4,951	-	30	(8,811)	(2,605)	(94)	(2,699)
Changes in accounting policies		-	-	-	-	-	(4)	(4)	-	(4)
Adjustments		-	-	-	-	-	494	494	-	494
Balance at 1 April (restated)		1,225	-	4,951	-	30	(8,321)	(2,115)	(94)	(2,209)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-
Additions		-	-	1,800	-	-	-	1,800	-	1,800
Total comprehensive income		-	-	-	-	-	(1,962)	(1,962)	-	(1,962)
Profit/(loss) for the year		-	-	-	-	-	(1,962)	(1,962)	-	(1,962)
Other comprehensive income		-	-	-	-	-	-	-	-	-
Balance as at 31 March 2020		1,225	-	6,751	-	30	(10,283)	(2,277)	(94)	(2,277)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
		Share capital	Share premium	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Total equity
		R'm	R'm	R'm	R'm	R'm	R'm
Company							
2018							
Balance at 1 April		1,225	4,951	30	(5,176)	1,030	(620)
Changes in accounting policies		-	-	-	-	-	-
Adjustments		-	-	-	947	947	-
Balance at 1 April (restated)		1,225	4,951	30	(4,229)	1,977	1,977
Total comprehensive income		-	-	-	(1,659)	(1,659)	-
Profit/(loss) for the year		-	-	-	(1,659)	(1,659)	-
Other comprehensive income		-	-	-	-	-	-
Balance as at 31 March 2018		1,225	4,951	30	(5,888)	318	318

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
		Share capital	Share premium	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Total equity
		R'm	R'm	R'm	R'm	R'm	R'm
COMPANY							
2019							
Balance at 1 April		1,225	4,951	30	(5,888)	318	318
Changes in accounting policies		-	-	-	-	-	-
Adjustments		-	-	-	(907)	(907)	-
Balance at 1 April (restated)		1,225	4,951	30	(6,795)	(589)	(589)
Total comprehensive income		-	-	-	(2,491)	(2,491)	-
Profit/(loss) for the year		-	-	-	(2,491)	(2,491)	-
Other comprehensive income		-	-	-	-	-	-
Balance as at 31 March 2019		1,225	4,951	30	(9,286)	(3,080)	(3,080)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2020

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
		Share capital	Share premium	Revaluation surplus on property, plant and equipment	Accumulated profit/(loss)	Total	Total equity
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY							
2020							
Balance at 1 April		1,225	4,951	30	(9,286)	(3,080)	(3,080)
Changes in accounting policies		-	-	-	(4)	(4)	(4)
Adjustments		-	-	-	(21)	(21)	(21)
Balance at 1 April (restated)		1,225	4,951	30	(9,311)	(3,105)	(3,105)
Acquisition of non-controlling interest		-	-	-	-	-	-
Additions		-	1,800	-	-	1,800	1,800
Other		-	-	-	-	-	-
Total comprehensive income		-	-	-	(1,427)	(1,427)	(1,427)
Profit/(loss) for the year		-	-	-	(1,427)	(1,427)	(1,427)
Other comprehensive income		-	-	-	-	-	-
Balance as at 31 March 2020		1,225	6,751	30	(10,738)	(2,732)	(2,732)

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOW STATEMENT

AS AT 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
Cash flows from operating activities							
Cash generated from operations	30	(811)	(271)	3,507	862	1,052	1,487
Interest income		168	232	231	157	190	213
Finance charges		(744)	(850)	(1,331)	(696)	(750)	(1,303)
Income taxes paid		(6)	-	-	-	-	-
Net cash from operating activities		(1,392)	(889)	2,407	323	492	397
Cash flows from investing activities							
Business acquisitions, net of cash acquired		-	-	-	-	-	-
Purchase of property, plant and equipment		-	(18)	(71)	-	(30)	(76)
Purchase of intangible assets		-	-	-	-	-	-
Net cash used in investing activities		-	(18)	(71)	-	(30)	(76)
Cash flows from financing activities							
Proceeds from issue of share capital		1,800	-	-	-	-	-
Proceeds from long-term borrowings		5	122	(1,508)	(1)	123	(756)
Payment of long-term borrowings		(75)	744	(706)	48	(597)	556
Advance payments received		(309)	(650)	(844)	(266)	(611)	(588)
Net cash used in financing activities		1,421	216	(3,059)	(220)	(1,085)	(787)
Net increase in cash and cash equivalents		29	(690)	(723)	103	(623)	(466)
Cash and cash equivalents at beginning of period		606	1,296	2,019	467	1,090	1,556
Cash and cash equivalents at end of period		635	606	1,296	570	467	1,090

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1. CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in South Africa. The consolidated and separate annual financial statements are presented in South African Rand (ZAR), rounded off to the nearest million (Rm), unless stated otherwise. The consolidated annual financial statements for the year ended 31 March 2020 comprise the company, its subsidiaries and associated companies.

1.1 STATEMENT OF COMPLIANCE

The consolidated annual financial statements have been prepared in accordance with IFRS, the Companies Act of South Africa 2008 and the PFMA. The principal accounting policies adopted in the preparation of the consolidated annual financial statements are set out below.

BASIS OF PREPARATION

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

CHANGES IN ACCOUNTING POLICIES

The group applied the new accounting standards IFRS 16: *Leases* for the first time in the 2020 financial year. IAS 8 and the transition rules in each standard have been applied for effects from changes in accounting principles. The impact of the adoption is set out in Note 38. The transition to IFRS 16 has been adjusted as a cumulative impact to opening retained income in the 2020 financial year. For a few customer contracts, the method for recognition has been adjusted. The main reason for the change is that a few long-term customer contracts cannot recognise revenue over time due to non-compliance with the right to payment, including reasonable margins for work performed.

Except for those mentioned above or if otherwise stated, the principal accounting policies used in the preparation of these consolidated financial statements are consistent with those applied for the year ended 31 March 2020 in terms of IFRS.

BASIS OF CONSOLIDATION

The consolidated annual financial statements reflect the financial position and operating results of the company, its subsidiaries and associated companies. The accounting policies have been applied consistently throughout the group. An investee is consolidated in the group annual financial statements only if the group has control over the investee.

The group controls an investee if the group has the following:

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

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

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

Where the company's interest in subsidiaries is less than 100%, the portion attributable to outside shareholders is reflected in non-controlling interest (refer to Note 20). Transactions with non-controlling interest entities are treated as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between the consideration paid and relevant share acquired is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity where there is no loss of control. The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The consolidation of a subsidiary commences when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated annual income statements and statements of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Associated companies are those entities in which the group holds an equity interest and has significant influence, but which are not subsidiaries or joint ventures. The consolidated annual financial statements include the group's share of total recognised profits or losses of associated companies on an equity accounting basis, from the date significant influence commences until the date that significant influence ceases. Where the financial year-end of an associated company is different from that of the group, the share of recognised profit and loss of that associated company is adjusted only where the effect of transactions or events that occur between that date and 31 March is significant. When the group's share of losses exceeds its interest in an associated company, the group's carrying amount is reduced to R nil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the relevant associated company. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

SEPARATE FINANCIAL STATEMENTS

In the separate annual financial statements, investment in subsidiaries and associated companies is accounted for at cost less accumulated impairment.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

1.2 SIGNIFICANT JUDGMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the group's accounting policies and the reported amounts of assets, liabilities, income and expenses.

The preparation of the consolidated annual financial statements, in conformity with IFRS, requires management to exercise its judgment, as well as make certain critical accounting 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 judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. 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

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and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have a significant effect on the consolidated annual financial statements and estimates with a significant risk of material adjustment in the following financial year are discussed in Note 1.2.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

1.3 JUDGMENTS AND ESTIMATES

CONTROL OR JOINT CONTROL

When considering control over an investment, the group considers the following facts, which are significant to the shareholder' agreements for all associated companies whether the following:

- Denel has only one equity partner for each of the associated companies and the equity partner holds the majority of the shareholding
- Denel and the equity partner will fund the company or guarantee funding, if additional funding is needed, in the same ratio as their shareholding
- The equity partner has the right to appoint the majority of the board members
- The equity partner has the right to appoint the CEO and CFO
- The equity partners are responsible for the day-to-day running and performance of the companies

Where a material associated company uses accounting policies that differ from those of Denel, the associated company's financial statements are adjusted to reflect uniform accounting policies in applying the equity method.

DEFERRED TAX ASSET

Management has made a judgment that there will be future taxable profits against which the deferred assets may be utilised. Management has considered the current order book and future business plans in determining that there will be future taxable profits in the future.

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

Revenue and profit recognition on contracts is based on estimates of future costs, as well as an assessment of contingencies for technical and other risks. To determine the progress towards the satisfaction of our performance obligations on each contract, the group uses, in most cases, the input method, measuring the costs incurred to date relative to the total estimated cost of the contract. This method requires the group to estimate the cost of customer contracts and activities performed to date as a proportion of the total cost of services and activities to be performed. The estimated costs are based on technical judgments and estimates made during the programme management process in the business. This process would affect the determination of the amount and timing of revenue from contracts with customers.

USEFUL LIVES AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The group's impairment assessments for property, plant and equipment are based on fair value less costs of disposal using the estimated fair value of the assets less the estimated costs of disposal. Impairment assessments were performed on assets that demonstrated possible impairment indicators or change to originally determined indicators, including available capacity against the requirements. The group reviews the estimated useful lives, residual values and depreciation methods of property, plant and equipment at the end of each reporting period.

PRODUCT WARRANTIES

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

SITE RESTORATION

Certain business entities within the group carry out manufacturing and testing activities that contaminate the land on which they are situated. Management performed a detailed study in consultation with external specialists in the Denel Land Systems business entity that was identified as the most likely area to have such contamination. Following the study, a high-level review of the remaining business entities was performed, taking into consideration the results of the study and the nature of their business activities. An estimate of the provision was determined based on consideration of the most stringent, but realistic remediation objectives, based on current or future potential land -uses for the sites, with due consideration given to the current legislative framework and local best practice.

In determining the provision for decommissioning, three key component costs were considered

- Remediation of contaminated land (typically soils and waste materials)
- Decommissioning of plant and equipment
- Demolition of buildings

The amount raised as a provision was based on the detailed study performed, taking into account the expected timing of decontamination, ranging between three and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 5.51% (2017/18: 5.81%) have been discounted at an interest rate of 11.30% (2017/18: 10.97%), which is based on the risk-free rate of return and the expected long-term inflation rate.

COUNTERTRADE

The group endeavours to fulfil its countertrade obligations as indicated in Note 25.5 of the consolidated annual financial statements. Certain obligations have been transferred to participating parties by means of back-to-back agreements.

Estimates used in calculating these obligations are as follows:

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

POST-EMPLOYMENT BENEFIT OBLIGATIONS

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

IMPAIRMENT TESTING OF GOODWILL

The consideration of the carrying value of goodwill for impairment requires an assessment of future cash flows expected to be generated from the associated cash-generating unit, as well as the appropriate discount rate to apply to these projections. Note 8 provides information on the key assumptions adopted by the group and the associated sensitivity analysis.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 REVENUE RECOGNITION

The International Accounting Standards Board (IASB)'s standard IFRS 15: *Revenue from contracts with customers* has been applied as of 1 January 2018. IFRS 15 replaces IAS 18: *Revenue* and IAS 11: *Construction contracts*. IFRS 15 has a uniform model for all revenue recognition based on a contract for the sale of a good or service between two parties. The company then recognises the revenue when it satisfies the obligation to deliver the promised goods or services to the customer, which means that revenue is recognised when the customer obtains control over the good or service and has the ability to use or obtain the benefits from the good or service. The main principles of revenue recognition are based in terms of a five-step model:

1. Identify the contract
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to each obligation
5. Recognise revenue when the obligation is satisfied

Revenue is recognised at the amount that reflects the consideration to which the group expects to be entitled for transferring goods or services to its customers based on the satisfaction of performance obligations, either over time or at a point in time, in the normal course of business. Revenue is recognised net of value-added tax (Vat) and inter-company revenues are eliminated on consolidation.

CONTRACT REVENUE

PERFORMANCE OBLIGATIONS

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. The group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

TRANSACTION PRICE

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the group expects to be entitled to in exchange for transferring the promised goods and services to the customer. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices.

Instead, stand-alone selling prices are typically estimated based on expected costs plus the contract margin, consistent with the group's pricing principles. While payment terms vary from contract to contract, on many of the group's contracts, an element of the transaction price is received in advance of delivery. The group therefore has significant contract liabilities (Note 21). The group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile. The group also considered that, for the majority of its contracts, a prepayment guarantee is usually issued to the customer for the prepayment received.

REVENUE AND PROFIT RECOGNITION

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- The customer simultaneously receives and consumes the benefits provided by the group's performance as it performs
- The group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The group's performance does not create an asset with an alternative use to the group and it has an enforceable right to payment for performance completed to date.

The group has determined that most of its contracts satisfy the "over time" criteria; either group performance creates or enhances an asset that the customer controls as the asset is created or enhanced or the group's performance does not create an asset with an alternative use to the group and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The group has determined that this method appropriately depicts the group's performance in transferring control of the goods and services to the customer. Where customer acceptance is a significant determining factor of customer control, the output method becomes a better measure to recognise revenue.

If the "over time" criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

CONTRACT MODIFICATIONS

The group's contracts are often amended for changes in customer requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. Prospectively, as an additional, separate contract (if the contract scope and price increases because of additions to promised goods or services that are distinct)
2. Prospectively, as a termination of the existing contract and creation of a new contract (if the remaining goods or services are distinct from those already transferred on or before the date of contract modification)
3. A part of the original contract using a cumulative catch-up (if the remaining goods or services are not distinct and therefore form part of the partially satisfied performance obligation at the date of contract modification)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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The majority of the group's contract modifications are treated under 3 above (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract -by- contract and may result in different accounting outcomes.

COSTS TO OBTAIN A CONTRACT

The group expenses pre-contract bidding costs, which are incurred regardless of whether a contract is awarded. The group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

COSTS TO FULFIL A CONTRACT

Contract fulfilment costs in respect of "over time" contracts are expensed as incurred unless they meet the criteria to be recognised under IAS 38: *Intangible assets*. Contract fulfilment costs in respect of "point in time" contracts are accounted for under IAS 2: *Inventories*.

INCOME FROM INVESTMENT PROPERTIES

Income from investment properties comprises mainly rental income received in terms of rental agreements and is recognised on a straight-line basis over the lease terms.

1.4.2 PROVISIONS

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit and loss as finance cost as it occurs. Further details in this regard are contained in Note 26.

1.4.3 TAXES

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit and loss, except to the extent that it relates to items recognised directly in other comprehensive income (OCI). Current tax expense is the expected tax payable on the taxable income (the results for the year, adjusted for items that are not taxable or not deductible) for the year. The group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantially enacted at the reporting date and any adjustments relating to prior years. Taxes are deferred for temporary differences between the values in the Statement of Financial Position according to the IFRS and according to their tax base.

Deferred tax does not provide for the initial recognition of goodwill or 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 and loss nor taxable profit and loss. Deferred tax is recognised in full on temporary differences arising from investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred tax liability is recognised to the extent that the carrying value of an asset is greater than its tax base, or where the carrying value of a liability is less than its tax base. A net deferred tax asset is regarded as recoverable and therefore only recognised when, on the basis of all available evidence, it is probable that future taxable profit will be available against which the temporary differences (including -carried forward tax losses) can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred tax assets and liabilities are recognised on a net basis for each tax entity. Deferred tax is measured at the tax rates expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

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

1.4.4 FINANCIAL INSTRUMENTS

The group initially recognises financial instruments on the trade date at which the group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value, for instruments not at fair value through profit and loss, at any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

FINANCIAL ASSETS

Subsequently, the group classifies financial assets as measured at amortised cost or fair value through profit or loss using the business model for managing financial assets and the cash flow characteristics as the basis.

The group has the following classes:

LOANS RECEIVABLE

Loans receivable are subsequently measured at amortised cost. The amortised cost is determined using the effective interest rate method.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortised cost less impairment losses.

PREPAYMENTS MADE

This relates primarily to advance payments made to suppliers, which will be reduced as the supplier delivers the items ordered by Denel. It is not held to collect cash, but rather will reduce the amount owed to the supplier as the goods and services are received. If cancelled, these would have to be settled in cash by the supplier. Prepayments are measured at amortised cost.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at fair value.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other operating expenses.

FINANCIAL LIABILITIES

Subsequently, the group classifies financial liabilities as measured at amortised cost or fair value through profit or loss.

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

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LOANS AND 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. Interest-bearing borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

TRADE AND OTHER PAYABLES

After initial recognition, trade and other payables are stated at amortised cost. Gains and losses on the derecognition process are recognised in profit and loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The group holds derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities, and its exposure to volatility in commodity prices. The group does not hold these derivative financial instruments for trading purposes.

Subsequent to initial recognition, derivative financial instruments are stated at fair value though profit and loss. Any gains or losses on the measurement of the derivative financial instruments are recognised in profit and 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.

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 following is applicable:

- The contractual rights to receive cash flows from the asset have expired
- The group has transferred its contractual rights to receive cash flows from the asset and either:
  a) has transferred substantially all the contractual rights to receive cash flows; or
  b) retains the contractual rights to receive the cash flows but assumes a contractual obligation to pay the cash flows to one or more customers.

FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

1.4.5 FOREIGN CURRENCIES

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in ZAR, which is the group's functional and presentation currency.

RECORDING OF FOREIGN TRANSACTIONS

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

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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

1.4.6 INVESTMENT PROPERTIES

Investment properties are treated as long-term investments and are initially measured at cost. All costs, including the transaction costs of the property,are included on initial recognition.

Subsequent to initial recognition, investment properties are carried at fair value, determined annually by independent external registered appraisers. Changes in fair value are recognised in profit and loss. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction. This falls into Level 3 of the fair value hierarchy. The valuations are prepared by considering the aggregate of the net annual rentals receivable from the properties and, where relevant, associated costs. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. The range of RSA yields applied for each type of property is included below:

- Offices: 10% to 15%
- Manufacturing: 10% to 15%

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after the letting of vacant accommodation and the market's general perception of their creditworthiness, the allocation of maintenance and insurance responsibilities between lessor and lessee, and the remaining economic life of the property. It has been assumed that, whenever rental reviews or lease renewals are pending with anticipated revisionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

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

Investment properties are derecognised when they are either disposed of or permanently withdrawn from use and no future economic benefits are expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset on retirement or disposal is recognised in profit and loss. A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals and for capital appreciation or both. Any such property interest under an operating lease is classified as an investment property and is carried at fair value. Lease payments are accounted for as described in the accounting policy for leases. Transfers to or from investment property are only made where there is a change in use of the asset. Property plant and equipment transferred to Investment property will be transferred at fair value and the difference between fair value and the carrying amount will be recognised as a revaluation.

1.4.7 PROPERTY, PLANT AND EQUIPMENT

On initial recognition, Property plant and equipment is measured at cost.

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

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DEPRECIATION

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

- Buildings: 20 to 50 years
- Plant and machinery and equipment: 3 to 60 years
- Vehicles: 7 years
- Office furniture: 3 to 20 years
- Computer equipment: 5 to 7 years

The determination of the useful economic life and residual values of property, plant and equipment is subject to management estimation. The group annually reviews all of the useful lives of the assets and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

SUBSEQUENT EXPENDITURE

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

DERECOGNITION

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

a) The date of disposal

b) The date when no future economic benefits are expected from its use or disposal

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

SPARE PARTS

Major spare parts and servicing equipment qualify as property, plant and equipment when the group expects to use them for more than 12 months. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.4.8 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 group are classified as finance leases. Assets and liabilities 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. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The leased assets are depreciated over their estimated useful life. The capital element of future obligations under the leases is included as a liability in the consolidated statements of financial position. 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 and loss on a straight-line basis over the term of the lease. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest rate method.

1.4.9 INTANGIBLE ASSETS

Intangible assets that are acquired separately by the group are initially measured and recognised at cost. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are derecognised on disposal or when no future benefits are expected. This could be either when they are disposed of or where no future economic benefits are expected from use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount of the assets on derecognition is recognised in profit and loss.

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

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

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development period. 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 future economic benefits associated with the specific asset.

PATENTS

Amortisation is charged on a systematic basis over the estimated useful lives of patents, where its legal rights determine the amortisation periods.

COMPUTER SOFTWARE

Amortisation is charged on a systematic basis over the estimated useful life of the software. The useful life of computer software is estimated to be between three and five years. Annual license fees on software are expensed in the year of accrual.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business at fair value. Subsequently, the assets and liabilities will be measured at the applicable IFRSs. The goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured

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at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- not larger than a segment based on the group's reporting format determined in accordance with IFRS 8: *Segment reporting*.

Where goodwill forms part of a cash-generating unit or group of cash-generating units, and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit and loss. A bargain purchase arising on acquisition is recognised immediately in profit and loss.

1.4.10 IMPAIRMENT

FINANCIAL ASSETS

The group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model: trade receivables, contract assets, lease receivables and intergroup loans. Trade receivables and contract assets do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, including lease receivables, which require expected lifetime losses to be recognised from the initial recognition of the receivables. Impairment losses are recognised in profit or loss. Derecognition from the balance sheet occurs where there is no longer an expectation of collecting payment. See note 19.

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.

NON-FINANCIAL ASSETS

Internal and external indicators are considered annually. 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 cost of disposal and value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent on 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.

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

REVERSALS OF IMPAIRMENT

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

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

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

1.4.11 INVENTORIES

Inventories are measured at the lower of cost or net realisable value using the first-in-first-out (FIFO) formula. 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 and loss. Where trade discounts, rebates and similar items are received, they are deducted in determining the cost of inventory. The following specific methods are applied in determining cost price:

Work-in-progress and finished products

These are valued at cost and include the cost of purchase of direct materials, direct labour, and 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 are classified as inventory.

1.4.12 ADVANCE PAYMENTS RECEIVED FROM REVENUE CONTRACTS

In the case of comprehensive and/or long-term revenue contracts, advance payments are negotiated with local and foreign customers. Guarantees are provided to customers for advance payments received. Advance payments received are recognised as a current liability for an amount that is estimated to be settled within one year from reporting date and as a non-current liability for the amount to be settled after one year from reporting date. Advance payments received in foreign currency are recognised at the ruling spot rate on the date of receipt. Guarantees provided are disclosed as contingent liabilities.

1.4.13 EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The group participates in a defined contribution fund, the assets of which are held in a separate trustee-administered fund. The group pays fixed contributions into independent entities in relation to several state plans and insurances for individual employees. The group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

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FOR THE YEAR ENDED 31 MARCH 2020

OTHER POST-RETIREMENT OBLIGATIONS

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The expected cost of this benefit is accrued over the period of employment and is funded by the Denel Medical Benefit Trust. The liability for this is with Denel. Independent qualified actuaries carry out valuations of these obligations on an annual basis (refer to Note 35.1).

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the group expects to pay as a result of the unused entitlement.

1.4.14 COUNTERTRADE OBLIGATIONS

Countertrade obligations arise when the group has entered into export contracts where the buyer's country requires countertrade by the group or where the group has entered into local defence contracts that require the group to impose countertrade obligations on suppliers in favour of South Africa on all imported content. Countertrade obligations can be a percentage of the value of the export contract up to 100%. The buyer's country normally requires a combination of the following to discharge the obligation:

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

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

1.4.15 SEGMENT REPORTING

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

1.4.16 HEDGE ACCOUNTING

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised non-financial asset or non-financial liability or an unrecognised firm commitment.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gain or loss recognised is recognised in profit and loss in the same period.

1.4.17 NON-CURRENT ASSET HELD FOR SALE

The group will classify a non-current asset held for sale when its carrying amount will be recovered through a sale transaction instead of use. The asset will cease to be depreciated and will be measured at the lower of its carrying value and fair value less costs to sell.

1.4.18 FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. When confirmed, irregular expenditure is disclosed in the Notes to the Financial Statements at the amount equal to the value of the irregular expenditure incurred, unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore are provided in the notes. Irregular expenditure is removed from the notes when it is (a) condoned by National Treasury or the relevant authority; (b) transferred to receivables for recovery; or (c) not condoned and is irrecoverable. A receivable related to irregular expenditure is only recognised in the financial statements when it is virtually certain that the payment will be received and the amount can be measured reliably.

Fruitless and wasteful expenditure is defined as expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is recognised as expenditure in profit or loss in the period in which it is identified, and disclosed in the Notes to the Annual Financial Statements. The expenditure is classified in accordance with the nature of the expense. Fruitless and wasteful expenditure is removed from the Notes to the Financial Statements when it is resolved or transferred to receivables for recovery. A receivable is only recognised in the financial statements when it is virtually certain that the payment will be received and the amount can be measured reliably.

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

The following accounting standards, interpretations and amendments to publish accounting standards, which are relevant to Denel, but not yet effective, have not been adopted in the current year. The group is currently in the process of evaluating the detailed requirements of the following amendments to assess the possible impact on the group's consolidated financial statements:

NUMBER	TITLE	EFFECTIVE DATE
IFRS 10: *Consolidated financial statements.*	• Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment address an acknowledged inconsistency between the requirements in IFRS 10: and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	The effective date of this amendment has been deferred indefinitely until further notice.
IAS 1: *Presentation of financial statements.*	• Definition of material: The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. • Classification of liabilities as current or non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	1 January 2020.

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NUMBER	TITLE	EFFECTIVE DATE
IAS 8: *Accounting policies, changes in accounting estimates and errors.*	• Definition of material: The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.	1 January 2020.
IAS 12: *income taxes.*	• Annual improvements 2015 — 2017 cycle: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises.	1 January 2019.
16: *Property, plant and equipment.*	• Property, plant and equipment: Proceeds before intended use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022.
IAS 28: *Investments in associates and joint ventures.*	• Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. • Long-term interest in sssociates and joint ventures: Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture, but to which the equity method is not applied.	The effective date of this amendment has been deferred indefinitely until further notice. 1 January 2022.
Liabilities and contingent assets.	• Onerous contracts — cost of fulfilling a contract: The amendments specify which costs should be included in an entity's assessment to determine whether a contract will be loss-making.	1 January 2022.

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		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
2 REVENUE							
Contract revenue [1 and 2]		2,729	3,409	6,023	2,610	3,144	4,939
Sale of goods		2,573	3,264	5,878	2,454	2,999	4,794
Services rendered		156	145	145	156	145	145
Revenue from recoveries		-	-	-	-	-	-
Income from investment properties		132	137	130	132	135	130
		2,862	3,546	6,153	2,742	3,279	5,069
Timing of revenue							
At a point in time		1,456	158	-	1,589	130	-
Over time		1,406	3,388	-	1,469	3,149	-
		2,862	3,546	-	3,058	3,279	-

Future revenue

Future revenue from long-term customer contracts

The order backlog is expected to be realised and recognised as revenue according to the following table:

Order backlog duration		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
1 year and less		2,023	1,937	-	1,643	780	-
1 to 2 years		402	264	-	300	256	-
2 to 3 years		26	15	-	26	13	-
3 to 4 years		-	30	-	-	-	-
		2,451	2,246	-	1,969	1,049	-

* Order backlog duration not reflecting for 2017/18 as IFRS15 implemented for years commencng 1 January 2018.

The following table provides information about receivables, contract assets and contract liabilities:

		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
Receivables, which are included in trade and other receivables (refer to Note 17)		507	(1,335)	1,099	412	615	727
Contract assets (refer to Note 18)		765	952	1,503	621	528	1,390
Contract liabilities (refer to Note 27)		1,367	(1,322)	(435)	(1,242)	(1,175)	(640)

The contract assets primarily relate to the group's rights to consideration for work completed, but not billed at the reporting date on made-to-order paper products. There was no impact on contract assets as a result of an acquisition of Turbomeca Africa (Pty) Ltd. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for development and construction, for which revenue is recognised over time.

1. Contract revenue also includes the sale of goods and services.
2. Amounts reported on as per the published 2018/19 Integrated Report restated.

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		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
	Notes	R'm	R'm	R'm	R'm	R'm	R'm
REVENUE (CONTINUED)	2						
Revenue by region							
Africa		107	108	-	103	107	-
Asia Pacific		566	891	-	566	891	-
Europe		188	324	-	155	214	-
Middle East		190	458	-	142	235	-
North America		37	100	-	-	-	-
South Africa		1,561	1,494	-	1,569	1,674	-
South America		5	21	-	5	21	-
USA		75	13	-	70	2	-
Other		-	-	-	-	-	-
		2,729	3,409	-	2,610	3,144	-

* Revenue by region duration not reflecting for 2017/18 as IFRS15 implemented for years commencng 1 January 2018.

SEGMENT REPORTING

Segment information is presented in respect of the group's operating segments. These operating segments are based on the group's management and reporting structure. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

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

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

Transfer pricing between operating segments is set at cost plus 10.0% of segment revenue, and segment results include transfers between operating segments. These transfers are eliminated on consolidation.

BUSINESS SEGMENTS

The operating segments of the group are determined based on the goods and services from which revenue is earned per segment. The group comprises the following main operating segments:

- Aerostructures, which includes Denel Aerostructures SOC Ltd
- Aerospace Systems: Denel Dynamics, Denel Overberg Test Range and Denel Asia Co LLC
- Aviation: Denel Aeronautics, Turbomeca Africa (Pty) Ltd
- Land Solutions: Denel Land Systems, Denel Vehicle Systems (Pty) Ltd and LMT Holdings SOC Ltd (RF)
- Munitions: Pretoria Metal Pressings

The results of business units with revenue less than 10% (2018/19: 10%: 2017/18: 10%) of the group revenue are aggregated within an operating segment, which products and services most closely relate to that of the specific entity.

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

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Notes	Aerostructures R'm	Aerospace Systems R'm	Aviation R'm	Land Solutions R'm	Munitions R'm	Non-core R'm	Consolidation entries R'm	Total R'm
2. REVENUE (CONTINUED)								
GROUP								
2019/20								
Segment revenue	23	350	770	179	179	486	619	2,686
Revenue from external customers	21	480	733	167	171	223	935	2,729
Intergroup revenue	2	2	38	12	8	211	(316)	(43)
Contribution	1%	13%	29%	7%	7%	18%	23%	100%
Segment operating profit/(loss)	(217)	(283)	(61)	(521)	(223)	118	(328)	(1,515)
Net finance income/(costs)	(60)	(33)	13	(161)	(25)	-	(308)	(575)
Share of profit in associated companies	-	-	-	-	-	-	357	62
Income tax expense	-	-	-	70	-	-	-	67
Net profit/(loss) for the year	(277)	(316)	(48)	(612)	(248)	118	(279)	(1,961)
Segment assets	101	880	950	5,467	625	1,977	(1,641)	8,358
Deferred tax assets				158		-		158
Total assets	92	666	1,032	625	625	1,977	(1,641)	8,516
Segment liabilities	1,046	1,184	1,533	3,988	293	695	1,734	10,472
Deferred tax liabilities	-	-	-	-	-	-	-	-
Total liabilities	1,046	1,184	1,533	3,988	293	695	1,734	10,472
Capital expenditure	-	2	-	-	-	3	-	5
Impairment losses raised/(reversed)	79	-	(26)	-	7	-	-	60
Depreciation/amortisation i.r.o. segment assets	43	149	14	29	4	8	-	247
Significant non cash items	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	27	-	27

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

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	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
Notes	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
2018/19								
Segment revenue	165	636	719	2,021	225	438	(795)	3,409
Revenue from external customers	164	586	677	2,003	203	183	(407)	3,409
Intergroup revenue	1	50	42	18	22	255	(388)	-
Contribution	5%	19%	21%	59%	7%	13%	-23%	100%
Segment operating profit/(loss)	(275)	(416)	17	(677)	(210)	(563)	785	(1,339)
Net finance income/(costs)	(77)	(71)	11	55	(34)	(316)	(186)	(618)
Share of profit in associated companies	-	-	-	-	-	-	425	425
Income tax expense	-	-	-	63	-	-	-	63
Net profit/(loss) for the year	(352)	(487)	28	(559)	(244)	(879)	1,024	(1,469)
Segment assets	502	898	1,079	4,587	653	6,661	(5,598)	8,782
Deferred tax assets	-	-	-	74	-	-	-	74
Total assets	502	898	1,079	4,661	653	6,661	(5,598)	8,856
Segment liabilities	1,172	1,759	569	4,983	682	5,550	(4,192)	10,523
Deferred tax liabilities	-	-	-	1	-	-	-	1
Total liabilities	1,172	1,759	569	4,984	682	5,550	(4,192)	10,524
Capital expenditure		13	-	-	-	-	-	13
Impairment losses raised/(reversed)	19	31	(26)	70	(11)	794	(726)	151
Depreciation/amortisation i.r.o. segment assets	118	26	(68)	19	3	13	-	111
Significant non cash items	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	3	-	44	-	47
2017/18								
Segment revenue	381	1,346	704	2,989	444	422	(265)	6,021
Revenue from external customers	378	1,280	620	2,930	442	177	196	6,023
Intergroup revenue	3	66	84	59	2	245	(461)	(2)
Contribution	7%	22%	12%	50%	7%	7%	-4%	100%
Segment operating profit/(loss)	(127)	(279)	(77)	(444)	(142)	68	(227)	(1,228)
Net finance income/(costs)	6	(43)	21	24	(31)	(285)	(792)	(1,100)
Share of profit in associated companies	-	-	-	-	-	-	226	226
Income tax expense	-	-	-	(7)	-	(1)	-	(8)
Net profit/(loss) for the year	(121)	(322)	(56)	(427)	(173)	(218)	(793)	(2,110)

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2020

Notes	Aerostructures R'm	Aerospace Systems R'm	Aviation R'm	Land Solutions R'm	Munitions R'm	Non-core R'm	Consolidation entries R'm	Total R'm
Segment assets	866	1,970	1,088	5,355	762	7,735	(6,716)	11,060
Deferred tax assets	-	-	-	22	-	-	-	22
Total assets	866	1,970	1,088	5,377	762	7,735	(6,716)	11,082
Segment liabilities	576	2,330	601	5,061	530	5,755	(4,226)	10,627
Deferred tax liabilities	-	-	-	1	-	2	(2)	1
Total liabilities	576	2,330	601	5,062	530	5,757	(4,228)	10,628
Capital expenditure	2	26	2	91	-	22	(37)	106
Impairment losses raised/(reversed)	7	86	11	(4)	-	314	(79)	335
Depreciation/amortisation i.r.o. segment assets	22	35	17	32	8	28	-	142
Significant non cash items	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	66	-	66

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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Notes		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
3	Cost of sales and other operating expenses						
	Cost of sales	2,201	7,588	5,410	2,462	3,527	4,462
	Previously reported	2,107	4,396	5,405	-	3,552	4,465
	Adjustments	94	3,192	5	2,462	(25)	(3)
	Other operating expenses	2,077	(5,783)	1,718	1,677	1,598	1,541
	Previously reported	2,074	1,375	1,726	-	1,604	1,548
	Reversal of impairment loss (refer to Note 40)	3	(7,158)	(39)	1,677	(6)	(6)
	Cost of sales and other operating expenses are arrived at after taking the following items into account:						
	Amortisation of intangible assets (refer to Note 10)	9	74	9	7	34	5
	Development costs	1	66	1	1	29	1
	Software	7	8	8	6	5	3
	Auditors' remuneration	33	-	12	21	-	10
	Current year	-	31	12	-	-	-
	Previous year's under accrual	33	(31)	-	21	-	10
	Costs of inventories recognised as an expense	548	2,664	5,056	-	-	-
	Depreciation (refer to Note 8)	138	86	132	91	57	104
	Buildings	27	14	27	23	12	31
	Computer equipment	42	10	16	41	7	13
	Office furniture	0	3	3	0	2	2
	Plant and machinery	61	54	79	19	32	51
	Vehicles	7	5	7	7	4	7
	Directors remuneration	29	-	43	-	-	33
	Executive directors	22	-	41	-	-	31
	Non-executive directors	7	-	2	-	-	2
	Employee salaries and other relevant costs [1]	1,380	2,145	2,296	-	1,753	1,746
	Medical fund contributions	90	114	118	-	93	92
	Pension costs: Defined contribution plan	104	145	189	-	132	155
	Services costs	919	1,890	2,139	-	1,528	1,606
	Staff and related provisions	194	(10)	(164)	-	(6)	(118)
	Termination benefits paid	73	6	14		6	11

1. Directors' remuneration is excluded from Employees: Salaries and relevant costs. Detailed remuneration is fully disclosed in the remuneration report, pages 97 to 98. Executive directors' remuneration is included from date of appointment as director.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	GROUP			COMPANY		
	2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
		Restated*	Restated*		Restated*	Restated*
Notes	R'm	R'm	R'm	R'm	R'm	R'm
Impairment raised/(reversed)	140	(682)	303	(203)	26	45
Intangible assets	-	-	1	-	-	-
Investments in subsidiaries (refer to Note 11)	-	(722)	235	-	-	-
Inventories (refer to Note 16)	157	40	25	-	40	29
Property, plant and equipment (refer to Note 8)	1	-	-	-	-	-
Trade and other receivables (refer to Note 17)	(18)	1	41	(203)	(14)	16
Net loss on financial instruments (refer to Note 5)	193	(16)	157	(41)	153	161
Operating expenses for investment properties		142	51		130	51
Operating lease payments [2]	60	80	81	140	72	72
Buildings	54	73	72	70	66	64
Computer equipment	-	1	2	65	1	2
Office furniture	5	5	6	-	5	6
Plant and machinery	1	1	1	5	-	-
Research and development costs [3]	53	108	504	49	88	401

2. No lease incentives were received during 2019/20 (2018/19 and 2017/18: Rnil).

3. The R&D costs are mainly customer funded. No amount (2017/18 and 2016/17: Rnil) was charged against provisions and Rnil m (2017/18: R17m) has been capitalised during the year under review.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
4	OTHER INCOME						
	Administration and management fees	(59)	80	129	16	80	129
	Dividends received	85	48	178	111	48	178
	Fair value adjustment on investment properties (refer to Note 9)	27	46	79	27	44	79
	Government grants received	-	1	8	-	-	8
	Royalty income	6	21	7	6	21	7
	Other income	76	141	(170)	129	35	114
		135	337	231	289	228	515
5	Net gains/(losses) on financial instruments						
	Settled transactions	(212)	80	(90)	(11)	(105)	(85)
	Gains	35	341	19	35	156	19
	Losses	(247)	(261)	(109)	(46)	(261)	(104)
	Fair value adjustments	(36)	(151)	9	(3)	(135)	-
	Gains	148	112	389	110	65	233
	Losses	(184)	(263)	(380)	(113)	(200)	(233)
	Firm commitments remeasurement	55	87	(76)	55	87	(76)
	Gains	44	88	14	44	88	14
	Losses	11	-	(90)	11	-	(90)
		(193)	16	(157)	41	(153)	(161)

6 NET FINANCE COSTS

The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):

6.1 FINANCE COSTS

Non-current interest-bearing loans and borrowings	1	2	1	1	1	-
Current interest-bearing loans and borrowings	651	745	1,299	647	726	1,274
Finance costs on financial liabilities	652	747	1,300	648	727	1,274
Unwinding of discount on provisions	92	103	32	48	23	29
	744	850	1,331	696	750	1,303

6.2 FINANCE INCOME

Gross finance income	(168)	(237)	(225)	(157)	(195)	(208)
Unwinding of discount on provisions	-	5	(6)	-	5	(5)
	(168)	(232)	(231)	(157)	(190)	(213)
Net finance costs	576	618	1,100	539	560	1,090

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
7	INCOME TAX EXPENSE						
	SA normal tax	-	-	-	-	-	-
	Local income tax	2	(48)	(1)	0	1	-
	Foreign tax	-	-	3	-	-	3
	Deferred tax	(81)	(4)	6	(5)	-	-
		(79)	(52)	8	(5)	1	3
	Reconciliation of tax rate						
	Effective tax rate	28.15%	3.86%	6.31%	-	20.77%	10.87%
	Adjustment in tax rate due to:	-0.15%	24.14%	21.69%	-0.36%	7.48%	17.13%
	Deferred tax asset not recognised	0.04%	23.21%	23.45%	0.00%	10.83%	18.58%
	Share of assoicated companies	0.00%	-6.54%	-2.50%	0.00%	0.00%	0.00%
	Other	-0.19%	7.47%	0.74%	-0.36%	-3.35%	-1.45%
	SA normal tax rate	28.00%	28.00%	28.00%	-0.36%	28.25%	28.00%
	The calculated tax losses available for offset against future taxable income are as follows:						
	Calculated income tax losses	-	5,022	3,600	-	4,987	3,214
	Capital gains tax losses	-	(24)	(10)	-	327	340
	Total calculated tax losses	-	4,998	3,590	-	5,314	3,554
	Calculated tax losses utilised	-	-	-	-	-	-
	Net available calculated tax losses	-	4,998	3,590	-	5,314	3,554

1. No provision for SA normal tax has been made for any of the companies within the group that are in an assessed loss position

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Land	Buildings	Computer equipment	Office furniture	Plant and machinery	Assets under construction	Motor vehicles	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
8	Property, plant and equipment								
	GROUP								
	2019/20								
	Opening balance								
	Cost	52	727	278	51	1,993	1	128	3,231
	Accumulated depreciation and impairment	-	(318)	(261)	(44)	(1,545)	-	(126)	(2,293)
	Net book value at 1 April 2019	52	410	18	8	448	1	2	938
	Additions	-	0	0	0	3	4	0	7
	Disposals	-	(0)	(0)	(0)	(6)	-	(1)	(8)
	Transfers to assets held for sale	-	(0)	(0)	(0)	(33)	-	(0)	(33)
	Reclassifications	-	-	1	-	-	-	(2)	(1)
	Fair value at first consolidation	-	-	-	-	-	-	-	-
	Depreciation (refer to Note 3)	-	(6)	(13)	(2)	(84)	-	(9)	(114)
	Write off (refer to Note 3)	-	2	1	0	1	(8)	(0)	(4)
	Impairment	-	-	-	-	-	-	-	-
	Net book value at 31 March 2020	52	406	6	5	329	(4)	(9)	785
	Made up as follows:								
	Cost	52	730	280	51	1,958	(4)	125	3,192
	Accumulated depreciation and impairment	-	(324)	(273)	(46)	(1,629)	-	(135)	(2,407)
		52	406	6	5	329	(4)	(9)	785
	GROUP								
	2018/19								
	Cost	52	713	285	52	1,985	(5)	129	3,211
	Accumulated depreciation and impairment	-	(301)	(269)	(45)	(1,484)	-	(118)	(2,217)
	Net book value at 1 April 2018	52	412	16	6	501	(5)	11	994

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	Land R'm	Buildings R'm	Computer equipment R'm	Office furniture R'm	Plant and machinery R'm	Assets under construction R'm	Motor vehicles R'm	Total R'm
Additions	-	8	0	0	11	3	0	21
Disposals	-	(2)	(0)	(0)	(0)	-	(0)	(3)
Transfers	-	-	0	-	3	-	-	3
Reclassifications	-	13	(6)	-	(13)	6	-	-
Fair value at first consolidation	-	-	-	-	-	(3)	-	(3)
Depreciation (refer to Note 3)	-	(16)	8	1	(61)	-	(8)	(76)
Write off (refer to Note 3)	-	(4)	(1)	(0)	7	-	(1)	1
Impairment	-	-	-	-	-	-	-	-
Net book value at 31 March 2019	52	410	18	8	448	1	2	938
Made up as follows:								
Cost	52	727	278	51	1,993	1	128	3,231
Accumulated depreciation and impairment	-	(318)	(261)	(44)	(1,545)	-	(126)	(2,293)
	52	410	18	8	448	1	2	938
GROUP								
2017/18								
Cost	52	711	282	51	1,913	20	130	3,159
Accumulated depreciation and impairment	-	(280)	(244)	(42)	(1,403)	-	(111)	(2,080)
Net book value at 1 April 2017	52	431	38	9	510	20	19	1,079
Additions	-	4	3	1	57	-	0	65
Disposals	-	(2)	(2)	(0)	(9)	-	(0)	(12)
Transfers	-	-	-	-	-	-	(1)	(1)
Reclassifications	-	-	1	0	23	(25)	-	(0)
Fair value at first consolidation	-	-	-	-	-	-	-	-
Depreciation (refer to Note 3)	-	(21)	(25)	(3)	(81)	-	(7)	(137)
Write off (refer to Note 3)	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Net book value at 31 March 2018	52	412	16	6	501	(5)	11	994
Made up as follows:								
Cost	52	713	285	52	1,985	(5)	129	3,211
Accumulated depreciation and impairment	-	(301)	(269)	(45)	(1,484)	-	(118)	(2,217)
	52	412	16	6	501	(5)	11	994

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Land	Buildings	Computer equipment	Office furniture	Plant and machinery	Assets under construction	Motor vehicles	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY									
2019/20									
Opening balance									
Cost		56	467	192	29	1,308	19	121	2,192
Accumulated depreciation and impairment		-	(254)	(146)	(20)	(977)	-	(72)	(1,470)
Net book value at 1 April 2019		56	212	46	9	331	19	49	722
Additions		-	-	-	-	3	1	-	5
Disposals		-	-	-	-	(6)	-	(1)	(8)
Transfers		-	-	-	-	-	-	-	-
Reclassifications		-	-	-	-	-	-	-	-
Fair value at first consolidation		-	-	-	-	-	-	-	-
Depreciation (refer to Note 3)		-	(3)	(11)	(2)	(39)	-	(9)	(64)
Write off (refer to Note 3)		-	2	1	-	1	(8)	-	(5)
Impairment		-	-	-	-	-	-	-	-
Net book value at 31 March 2020		56	211	35	7	291	12	40	650
Made up as follows:									
Cost		56	468	192	29	1,307	12	120	2,184
Accumulated depreciation and impairment		-	(258)	(157)	(22)	(1,016)	-	(80)	(1,534)
		56	211	35	7	291	12	40	650
COMPANY									
2018/19									
Cost		56	463	192	30	1,301	16	122	2,180
Accumulated depreciation and impairment		-	(244)	(155)	(22)	(1,034)	-	(64)	(1,520)
Net book value at 1 April 2018		56	219	37	7	267	16	58	660
Additions		-	8	-	-	11	3	-	21
Disposals		-	-	-	-	-	-	-	(1)
Transfers		-	-	-	-	-	-	-	-
Reclassifications		-	-	-	-	-	-	-	-
Fair value at first consolidation		-	-	-	-	-	-	-	-
Depreciation (refer to Note 3)		-	(10)	9	2	57	-	(8)	50
Write off (refer to Note 3)		-	(4)	(1)	-	(3)	-	(1)	(9)
Impairment		-	-	-	-	-	-	-	-
Net book value at 31 March 2019		56	212	46	9	331	19	49	722

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

Notes	Land R'm	Buildings R'm	Computer equipment R'm	Office furniture R'm	Plant and machinery R'm	Assets under construction R'm	Motor vehicles R'm	Total R'm
Made up as follows:								
Cost	56	467	192	29	1,308	19	121	2,192
Accumulated depreciation and impairment	-	(254)	(146)	(20)	(977)	-	(72)	(1,470)
	56	212	46	9	331	19	49	722
COMPANY								
2017/18								
Cost	56	461	181	29	1,253	17	122	2,119
Accumulated depreciation and impairment	-	(225)	(133)	(20)	(982)	-	(57)	(1,417)
Net book value at 1 April 2017	56	236	48	9	271	17	65	702
Additions	-	2	11	1	41	6	-	61
Disposals	-	-	-	-	-	-	-	-
Transfers								-
Reclassifications	-	-	-	-	7	(7)	-	-
Fair value at first consolidation								-
Depreciation (refer to Note 3)	-	(19)	(22)	(2)	(52)	-	(7)	(103)
Write off (refer to Note 3)	-	-	-	-	8	-	-	8
Impairment								-
Net book value at 31 March 2018	56	219	37	7	267	16	58	668
Made up as follows:								
Cost	56	463	192	30	1,301	16	122	2,180
Accumulated depreciation and impairment	-	(244)	(155)	(22)	(1,034)	-	(64)	(1,520)
	56	219	37	7	267	16	58	660

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP			COMPANY		
		2019/20	2018/19 Restated*	2017/18 Restated*	2019/20	2018/19 Restated*	2017/18 Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
9	Investment properties						
	Fair value at 1 April	844	794	728	832	784	718
	Additions	-	4	-		4	-
	Fair value adjustment (refer to Note 4)	27	46	53	27	44	53
	Transfer from/(to) assets held for sale	-	-	13	-	-	13
	Disposal of investment property	-	-	-	-	-	-
	Fair value at 31 March	871	844	794	859	832	784

Valuations of investment properties were carried out at year-end by registered independent external appraisers, who have appropriately recognised professional qualifications and experience in the location and nature of the property being valued. The valuation is determined on valuation techniques that utilises unobservable inputs thus falling into Level 3 of the fair value hierarchy. The highest and best use of the investment properties do not differ from their current use. Changes in fair value are recognised in profit and loss.

For further details on investment properties, refer to accounting policies, Note 1.4.6 on page 143.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void period, occupancy rate, lease incentive costs such as rent-free period and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs. secondary), tenant credit quality and lease terms.	• Expected market rental growth (6.4% – 8.8%, weighted average 9%) • Void periods (average six months after the end of each lease) • Occupancy rate (90 – 96%, weighted average 93%) • Rent-free periods (six months period on new leases required) • Risk adjusted discount rates (12.0%, weighted average 13.65%).	The estimated fair value would increase/decrease if: • expected market rental growth were higher/lower; • the occupancy rate were higher/lower; • rent-free periods were shorter/longer; or • the risk-adjusted discount rate were lower/higher.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
10	Intangible assets						
	Development costs	16	10	17	16	10	17
	At cost	203	199	201	203	195	200
	Accumulated amortisation and impairment	(186)	(189)	(185)	(186)	(185)	(183)
	Goodwill	-	-	41	-	-	-
	At cost	10	339	349	-	-	-
	Accumulated impairment	(10)	(339)	(308)	-	-	-
	Denel Aerostructure SOC Ltd	-	(72)	(72)	-	-	-
	LMT Holdings SOC Ltd (RF) [1]	-	(9)	(9)	-	-	-
	Denel Vehicle Systems (Pty) Ltd [2]	(10)	(242)	(208)	-	-	-
	Turbomeca Africa (Pty) Ltd	-	(19)	(19)	-	-	-
	Software	8	29	24	17	25	18
	At cost	191	191	198	151	151	158
	Accumulated amortisation	(183)	(162)	(174)	(134)	(126)	(140)
	Other	19	15	16	8	15	8
	At cost	191	191	198	8	15	8
	Accumulated amortisation and impairment	(172)	(176)	(182)	-	-	-
	Total carrying value at 31 March	43	54	98	41	50	42

1.On 11 May 2012, Denel acquired 51% of the issued ordinary shares of LMT Holdings (Pty) Ltd, an unlisted company, whose core business is provision of protected vehicle solutions. LMT Holdings (Pty) Ltd has three subsidiaries, i.e. LMT Products (Pty) Ltd, LMT Engineering (Pty) Ltd and LMT Properties (Pty) Ltd. The company acquired LMT Holdings (Pty) Ltd to broaden its landward capablility for a new product range. The acquisition was for a purchase consideration of R100 on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies. A decision was taken by management to impair the goodwill from synergies arising from the acquisition. Since acquisition, the name was changed to LMT Holdings SOC Ltd (RF).

2. At acquisition of Denel Vehicle Systems (Pty) Ltd, Denel recognised goodwill of R242 m. In 2018/19, the recoverable R358 m was based on its value in use, determined by discounting the future cash flows to be generated from its continued use. The carrying amount was determined to be higher than its recoverable amount. An impairment loss of R103 m was recognised. The impairment was allocated with R33 m against the remaining goodwill. The assumptions used in the estimation of value in use were as follows:
- *Discount rate: 15.89%*
- *Terminal value growth rate: 5.5%*

The discount rate used was based on the R186 South African Government bond. The cash flows were based on the most recent Corporate Plan of DVS. Ten years of cash flows were included in the discounted cash flows model. Management reviewed the long-term nature of the contracts in determining this period and the period in which those contracts exceeded the five-year horizon. The growth rate applied was 5.5%
The above entities are considered as separate cash-generating units and have been treated as such.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		COMPANY 2019/20 R'm	2018/19 Restated* R'm	2017/18 Restated* R'm
11	INVESTMENTS IN SUBSIDIARIES			
	Unlisted shares	2,616	2,780	2,646
	Accumulated impairment	(2,250)	(2,414)	(1,066)
	Carrying value at 31 March	366	366	1,580
	The accumulated impairment loss on investments in subsidiaries and divisions is as follows:			
	Unlisted shares	-	-	-
	Impairment for the year	-	-	-
	Balance at 1 April	2,280	1,066	1,066
	Impairment for the year	(29)	1,214	-
		2,250	2,280	1,066

	2019/20			2018/19			2017/18		
	Effective shareholding	Share investment by Denel SOC Ltd	Impairment	Effective shareholding	Share investment by Denel SOC Ltd	Impairment	Effective shareholding	Share investment by Denel SOC Ltd	Impairment
	%	R'm	R'm	%	R'm	R'm	%	R'm	R'm
Subsidiary companies									
Denel Aerostructures SOC Ltd	100	1,689	(1,689)	100	1,689	(1,689)	100	1,689	(1,055)
Densecure SOC Ltd	100	8	-	100	8	-	100	8	-
LMT Holdings SOC Ltd (RF) [1]	51	16	(16)	51	16	(16)	51	16	-
Denel Vehicles Systems (Pty) Ltd	100	828	(469)	100	828	(470)	100	828	-
Turbomeca (Africa) (Pty) Ltd	100	94	(94)	100	94	(94)	100	94	-
Denel Asia LLC [2]	51	-	-	51	-	-	51	-	-
	-	2,635	(2,268)	-	2,635	(2,269)	-	2,635	(1,055)

1. On 2 September 2019, the Board of LMT Products (Pty) Ltd (the company) a subsidiary of LMT Holdings (Pty) Ltd, adopted a resolution in accordance with section 129 of the Companies Act 71 of 2008 (as amended), in terms of which the company voluntarily commenced business rescue proceedings. The company appointed Sipho Eric Sono to be its business rescue practitioner on 4 September 2019. Denel is the majority shareholder of LMT Holdings (Pty) Ltd. However, the underlying business of this entity is with the company. As such, upon the voluntary business rescue proceedings, LMT Holdings no longer has control of this entity. Denel continued to have marjority ownership of LMT Holdings and, as such, it was still consolidated in Denel.

2. Denel Asia LLC was established in Hong Kong on 29 January 2016. This company is currently undergoing a compulsory liquidation process.

A detailed breakdown of the investments in subsidiaries is contained in Note 35.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

12 INVESTMENT IN ASSOCIATED COMPANIES

12.1 ESTABLISHMENT OF ASSOCIATED COMPANIES

As part of the turn around strategy that was agreed with government, Denel embarked on a process to identify partners who will share technology, development cost and funding, access to markets and assist in management. During this process a number of equity partners were identified that would have synergy with specific business entities within Denel. Denel negotiated equity partnership agreements, which led to the formation of new companies.

A company is an "associated company" for the group, if Denel has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the company, but not control or have joint control over those policies. Control is the power to govern the financial and operating policies of a company in order to obtain benefits from its activities. Although Denel has significant influence over its associated companies, it has no control or joint control over its associated companies with respect to their financial and operating policy decisions.

Rheinmetall Denel Munitions (Pty) Ltd was established on 1 September 2008 when the Denel entities comprising Somchem (Somerset West and Wellington sites), Swartklip, Boksburg and Naschem became part of the Rheinmetall Defence Group. The company became known as Rheinmetall Denel Munition with Rheinmetall Waffe Munition GmbH being the 51% majority shareholder, while Denel holds 49% of the shares. In considering control, Denel took into account of the following factors:

- Rheinmetall Waffe Munition GmbH holds 51% of the shares in Rheinmetall Denel Munition (Pty) Ltd, and has the right in terms of the shareholders' agreement
- Rheinmetall Waffe Munition GmbH manages the day-to-day activities of the company in terms of the shareholders' agreement
- Rheinmetall Waffe Munition GmbH has the right to appoint the CEO and CFO of their choice for the company in terms of the shareholders' agreement

These factors enabled management to conclude, without making any significant judgments, that Denel does not have power over Rheinmetall Denel Munition (Pty) Ltd, but can exercise significant influence.

The golden share held by Denel is done so on behalf of the South African government, who may intervene to veto or change certain strategic decision, such as the closure or relocation of the factory to a foreign country. The golden share agreement clearly states that this "golden share shall not afford the government any right to participate in any profits and in the management of the business". These rights do not confer any decision-making rights, but merely the right to veto a disposition of the assets or business of Rheinmetall Denel Munition (Pty) Ltd (IFRS 10.14).

The following facts are significant to the partnership agreements for all associated companies:

- Denel has only one equity partner for each of the associated companies and the equity partner holds the majority of the shareholding.
- Denel and the equity partner will fund the company or guarantee funding, if additional funding is needed, in the same ratio as their shareholding.
- The equity partner has the right to appoint the majority of the board members.
- The equity partner has the right to appoint the CEO and CFO with the exception in the case for TMA, where Denel appoints the CFO.
- The equity partners are responsible for the day-to-day running and performance of the companies.

Hensoldt Optronics (Pty) Ltd is a global supplier in the development and production of optronics, optical and precision engineered products for military and security applications.

Rheinmetall Denel Munitions (Pty) Ltd specialises in the design, development and manufacture of large and medium-calibre ammunition, and is a world leader in the field of artillery, mortar and infantry systems and plant engineering. Pioneer Land Systems LLC will market, sell and manufacture landward vehicles and weapon systems and supply ancillary services in support of such products.

Barij Dynamics LLC is a UAE-based global supplier of precision guided munitions.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

12.2 ESTABLISHMENT OF ASSOCIATED COMPANIES (CONTINUED)

		2017/18 to 2019/20			
		Denel SOC Ltd		Equity partner	
Associated company	Equity partner	Shareholding %	Number of board members	Shareholding %	Number of board members
Rheinmetall Denel Munitions (Pty) Ltd	Rheinmetall Waffe Munition GmbH	49	2	51	3
Pioneer Land Systems LLC	International Golden Group PJSC	49	2	51	3
Barij Dynamics	Tawazun Holding	49	2	51	3

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	GROUP			COMPANY		
	2020	2019	2018	2020	2019	2018
Notes	R'm	R'm	R'm	R'm	R'm	R'm
12.2 NET INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)						
Cost of investments in associated companies						
Unlisted shares	394	394	450	394	394	450
Net share of results in associated companies	908	905	663	-	-	-
Share of current profit before tax	118	357	281	-	-	-
Share of current year tax	(30)	(30)	(55)	-	-	-
Share of current year profit after tax	88	327	226	-	-	-
Dividends paid	(85)	(85)	(25)	-	-	-
Accumulated profit at 1 April	905	663	462	-	-	-
Net investments in associated companies	1,302	1,299	1,113	394	394	450

The net investment in associated companies are made up as follows:

	GROUP 2020	GROUP 2019	GROUP 2018	COMPANY 2020	COMPANY 2019	COMPANY 2018
Cost of investment in associated companies						
Hensoldt Optronics (Pty) Ltd [1]	-	-	149	-	-	55
Rheinmetall Denel Munitions (Pty) Ltd [3]	840	951	879	371	371	372
Barij Dynamics LLC (previosly Tawazun Dynamics) [2]	462	349	85	23	23	23
Net investments in associated companies	1,302	1,300	1,113	394	394	450

None of the investments in associated companies were impaired during the year under review (2018/19: Rnil)

1. *Company is incorporated in Germany. Hensoldt Sensors GmbH bought the 70% shareholding in Airbus DS Optronics (Pty) Ltd from Airbus DS Optronics GmbH on 28 February 2018.*
2. *Company is incorporated in the UAE.*
3. *Company incorporated in France.*
4. *Turbomeca Africa (Pty) Ltd is a world leader in the design, manufacturing and sale of gas turbines for small- and medium-powered helicopters. Turbomeca Africa (Pty) Ltd became a wholly-owned subsidiary when Denel SOC Ltd bought the remaining 51% on 1 September 2017. Refer to Note 11.*
5. *Refer to the consolidated and separate income statements and statements of comprehensive income, page 126.*

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

12.2 NET INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

Rheinmetall Denel Munitions (Pty) Ltd has elected to designate hedges as cash flow hedges for hedge accounting purposes, whereas Denel's accounting policy is to designate hedges as fair value hedges. For disclosure purposes, Rheinmetall Denel Munitions (Pty) Ltd's annual financial statements were restated to reflect Denel's acounting policy in this regard. Rheinmetall Denel Munition (Pty) Ltd is considered to be a material associated company as a result of the quantitative nature of its results and is disclosed separately.

The following represents the summarised restated financial information of Rheinmetall Denel Munitions (Pty) Ltd:

	2019/20	2018/19	2017/18
Total assets	3,721	3,205	2,752
Non-current assets	1,072	1,018	629
Current assets	2,649	2,187	2,123
Total liabilities	2,120	1,517	381
Non-current liabilities	502	484	194
Current liabilities	1,618	1,033	187
Net assets	1,601	1,688	2,371
Group's share of associated company's net assets	784	827	1,162
Revenue	1,513	2,733	2,809
Group's share of revenue	741	1,339	1,376
Profit or Loss before tax	(227)	287	448
Group's share of revenue	(111)	141	220
Profit or loss after tax	(150)	222	345
Group's share of revenue	(74)	109	169

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

12.2 NET INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

The other associated companies' figures are not material, thus, for disclosure purposes, figures are aggregated. The following represents the summarised financial information of the associated companies other than Rheinmetall Denel Munitions (Pty) Ltd:

	2019/20	2018/19	2017/18
Total assets	5,122	4,102	3,201
Non-current assets	566	460	382
Current assets	4,556	3,642	2,819
Total liabilities	3,320	2,965	2,574
Non-current liabilities	299	253	462
Current liabilities	3,021	2,712	2,112
Net assets	1,802	1,137	627
Group's share of associated company's net assets	772	461	216
Revenue	2,932	3,156	1,802
Group's share of revenue	1,288	1,447	780
Profit before tax	542	643	156
Group's share of revenue	138	314	60
Profit after tax	542	650	156
Group's share of revenue	138	316	226

A detailed breakdown of the investments in associated companies is contained in Note 12.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	GROUP			COMPANY		
	2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
		Restated*	Restated*		Restated*	Restated*
	R'm	R'm	R'm	R'm	R'm	R'm
13 LOANS AND RECEIVABLES						
13.1 INTRAGROUP RECEIVABLES						
Gross amount receivable	-	-	-	951	700	650
Total non-current non-interest bearing loans and receivables	-	-	-	-	-	-
Denel Aerostructures SOC Ltd	-	-	-	336	336	336
Total current interest bearing loans and receivables	-	-	-	-	-	-
LMT Holdings SOC Ltd	-	-	-	333	318	314
Denel Aerostructures SOC Ltd		-	-	282	46	-
Accumulated impairment	-	-	-	951	654	650
Total non-current non-interest bearing loans and receivables	-	-	-	-	-	-
Denel Aerostructures SOC Ltd	-	-	-	618	336	336
Total current interest bearing loans and receivables	-	-	-	-	-	-
LMT Holdings SOC Ltd	-	-	-	333	318	314
	-	-	-	-	46	-
Accumulated impairment						
Balance as at 1 April	-	-	-	-	-	-
Impairment for the year	-	-	-	-	-	-
	-	-	-	-	-	-

Intragroup loans are, in actual fact, financial instruments that are managed by the group's treasury function. The Audit Committee of the Board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. (Refer to Note 33.1). The amount comprises the following:

- Cash managed by the group's treasury function.
- Cash comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.
- Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand, form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to being overdrawn.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	GROUP			COMPANY		
	2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
		Restated*	Restated*		Restated*	Restated*
Notes	R'm	R'm	R'm	R'm	R'm	R'm

13.1 DENEL AEROSTRUCTURES SOC LTD

A non-interest bearing loan, with no interest to be paid and no fixed repayments terms determined, is applicable. Management took a decision to impair this loan fully because the company was insolvent and not in a position to repay the loan.

13.2 LMT HOLDINGS SOC LTD (RF)

Denel entered into a loan transaction with its subsidiary LMT Holdings SOC (RF), wherein Denel agreed to provide certain amounts of money as a loan that was due and payable on 1 November 2018. Interest was levied at prime less 0.5% per annum. In the event that the loan financing is disproportionate to the shareholding, interest at prime plus 2% per annum will be charged. All interest must be paid together with the capital sum of the loan at the end of the loan period. In assessing the recoverability of this loan, management considered the cash flow forecast of LMT, as well as its latest cash forecast. It was clear that LMT will not be in a position to repay this loan when it is due or in the next twelve months. The value of the loan at 31 March 2018 was R333 m and the full amount was impaired.

	GROUP			COMPANY		
	2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
		Restated*	Restated*		Restated*	Restated*
Notes	R'm	R'm	R'm	R'm	R'm	R'm
14 ADVANCE PAYMENTS MADE						
Current	382	390	440	335	352	409
Non-current	-	-	-	17	17	-
	382	390	439	352	369	409

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19 Restated*	2017/18 Restated*	2019/20	2018/19 Restated*	2017/18 Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
15	DEFERRED TAX						
	Deferred tax assets	163	18	19	5	-	-
	Deferred tax liabilities	(2)	2	(1)	(5)	2	-
		161	20	19	-	2	-
	Movement of deferred tax assets and liabilities:						
	Balance at 1 April	20	19	24	2	-	-
	Income statement (refer to Note 7)	141	1	(5)	(2)	2	-
		161	20	19	-	2	-
	Net deferred tax asset comprises						
	Advance payments received	-	956	941	-	890	904
	Amounts due to customers for work invoiced, not yet performed	19	42	83	-	34	82
	Capital allowances	57	90	107	31	35	41
	Limit deferred tax asset to liability	-	(1,488)	(901)	(334)	(1,300)	(826)
	Provisions	129	360	236	29	249	187
	Other tax deductable differences	(73)	331	304	306	307	283
		132	291	770	32	215	671
	Net deferred tax liability comprises						
	Capital allowances	(44)	(179)	(227)	(26)	(195)	(175)
	Doubtful debt allowance	-	-	(4)	-	-	(4)
	Prepayments made	-	(10)	(2)	-	(8)	(2)
	Work performed not yet invoiced	-	(3)	(505)	-	-	(482)
	Section 24 allowance on prepayments received	-	(25)	(3)	-	-	-
	Other tax deductable differences	(2)	-	(7)	(2)	(8)	(7)
	Contracts not yet due or received	-	(3)	(3)	-	(3)	(3)
		(46)	(221)	(751)	(28)	(215)	(673)

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised. Had a full deferred tax asset been recognised on the calculated tax loss, the value of the deferred tax asset at year-end would have been R205 m (2018/19: R1 717 m; 2017/18: R1 650 m) for the company.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
16	INVENTORIES						
	Inventories are valued at the lower of cost or net realisable value and are categorised as follows:						
	Consumable inventory	142	153	156	142	153	156
	Contracts in progress	-	-	-	-	-	-
	Goods in transit	42	49	57	41	47	50
	Finished products	841	971	783	826	930	754
	Raw materials and bought-out components	71	128	399	74	6	160
	Spare parts	123	140	117	-	-	-
	Work in progress	947	1,105	1,537	842	1,082	1,505
		2,165	2,546	3,049	1,925	2,217	2,625
	Accumulated impairment						
	Business acquired	(528)	-	(288)	1	1	1
	Impairment for the year	-	-	-	276	210	144
	Impairment reversal for the year	-	-	-	-	-	-
		1,638	2,546	2,761	2,200	2,426	2,768
	An amount relating to inventories which was recognised as an expense during the year	548	2,664	5,056	544	2,670	5,072
	Inventory purchased during the financial year	719	3,739	7,712	602	3,255	5,371

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP 2019/20 R'm	GROUP 2018/19 Restated* R'm	GROUP 2017/18 Restated* R'm	COMPANY 2019/20 R'm	COMPANY 2018/19 Restated* R'm	COMPANY 2017/18 Restated* R'm
17	TRADE AND OTHER RECEIVABLES						
	Financial assets	594	660	1,232	556	637	1,068
	Trade receivables	547	579	983	449	496	806
	Trade receivables - related parties	-	-	-	-	-	-
	Interest receivables	-	-	1	-	-	-
	Sundry receivables	46	80	248	107	141	263
	Non-financial assets	111	67	(21)	99	59	(33)
	Work performed not yet invoiced	10	-	(74)	-	-	(74)
	Straight line receivables	54	28	24	54	28	24
	Sundry receivables	47	39	28	45	31	16
		705	727	1,210	655	697	1,035
	Accumulated impairment						
	Balance at 1 April	141	81	44	135	78	42
	Business acquired		-	27	-	-	27
	Impairment for the year (refer to Note 3)	28	79	11	28	75	11
	Impairment reversal for the year	(39)	(23)	(1)	(38)	(23)	(1)
	Recovered during the year	-	-	-	-	-	-
	Written off as non-collectible	20	5	(1)	20	5	(1)
		150	141	81	145	135	78

Accumulated impairment

Trade receivable expected credit losses were measured on the simplified approach: allowing Denel to recognise lifetime expected losses on assets without the need to identify significant increases in credit risk.

The trade receivables book was segmented into groups of customers that are considered to exhibit similar credit risks and behaviour. Each division within the group trades independently, resulting in each division representing a different risk bucket. Within the divisions, Denel further segmented the trade receivables between individually material and general trade receivables that would have similar credit risk profiles. Where a segment has an insufficient number of customers, observable default history or is not material, a judgmental overlay was applied, which took into account the number of customers and observable default history in conjunction with the data quality.

For multi-factor correlations of macroeconomic variables to defaults, Denel has used the correlations provided by Moody's Analytics' ImpairmentCalc, which are based on their study and statistical assessment of a limited number of suitable factors that have provided the highest correlation across the entire South African economy. The expected loss rates are based on the revenue payment profiles over a 60-month period before 1 April 2018. Denel has applied an assumption that a trade receivable has defaulted when it is more than 90 days outstanding from the date invoices are due for payment. As per the IFRS 9 expedient, all trade receivable have a lifetime expected credit loss. Trade receivables are written off when there is no reasonable expectation of recovery, as evidenced by the ceasing of business by the customers.

In terms of IAS 39, as at 31 March 2018, trade and other receivables to the value of R52.3 m were impaired and provided for. The trade receivables in excess of 30 days fell within the acceptable credit risk limits of the group and mainly consisted of accounts and customers for whom there was no history of non-payment. There were no impairments required on any of the other classes of receivables. Impairment was triggered when specific loss events occurred that would lead to impairment.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
18	Contract assets						
	Opening Balance	858	637	1,468	528	279	1,061
	Adjustment	92	370	-	92	1,110	(62)
	IFRS Change	(270)	31	47	-	248	-
	Other	84	(86)	(322)	-	(1,109)	-
	Payments received in advance for delivery of performance obligations	1	-	310	1	-	391
	Total	765	952	1,503	621	528	1,390
19	OTHER FINANCIAL ASSETS AND LIABILITIES						
19.1	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
	Derivatives	15	4	89	14	4	80
	Foreign exchange contracts	15	13	89	15	4	80
	Firm commitments	174	109	104	174	109	104
	Foreign exchange contracts designated as fair value hedges	174	109	104	174	109	104
		189	113	193	188	113	184
19.2	FINANCIAL ASSETS AT AMORTISED COST						
	Derivatives	114	17	2	68	10	2
	Foreign exchange contracts	114	17	2	68	10	2
	Firm commitments	29	24	133	29	24	133
	Foreign exchange contracts designated as fair value hedges	29	24	133	29	24	133
		143	41	135	97	34	135

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP			COMPANY		
		2019/20	2019/20 Restated*	2017/18 Restated*	2019/20	2018/19 Restated*	2017/18 Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
20	CASH AND CASH EQUIVALENTS						
	CASH AND CASH EQUIVALENTS CONSISTS OF:						
	Cash and short-term deposits [1]	629	568	1,293	570	467	1,090
	Bank overdraft	-	-	-	-	-	-
		629	568	1,293	570	467	1,090
20.1	Cash and short-term deposits						
	Cash in bank	267	210	588	237	141	525
	Banks	144	133	393	114	67	333
	Banks (foreign currency)	123	77	195	123	74	192
	Deposits	22	22	22	-	-	-
	Local call deposits	22	22	22	-	-	-
	Cash restricted use for use [2]	346	374	685	333	326	565
	Local banks	346	374	685	333	326	565
		635	606	1,295	570	467	1,090
21	NON-CURRENT ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND BUSINESS ENTITIES DISPOSED						
	Assets held for sale and associated liabilities						
	Assets						
	Investment associated companies [4]	178	153	-	-	-	-
	Property, plant and equipment [3]	34	-	-	-	-	-
	Total	212	153	-	-	-	-

1. Cash and cash equivalents are as per the consolidated statements of cash flows, page 133. The weighted average effective interest rate on call deposits is 6.89% (2017/18: 6.65%; 2016/17: 6.539%). Interest on cash in bank is earned at market rates.

2. The funds included in cash and short-term deposits are available on demand, except for the amount relating to the Hoefyster project, which is ringfenced at R331 m (2018/19: R331 m; 2017/18: R827 m).

3. As part of the process to wind up the Aerostructure business (Denel Aerostructures SOC Ltd), the carrying value of these assets as at 31 March 2020 is R34 m. Subsequent to year-end, an action to be held in June 2020 to dispose of some of these assets, with the remainder being purchased by Denel SOC, all these assets classified as held for sale have been fairly valued at year end.

4. On 24 February 2019, the Board of Denel approved the sale of Denel's' shares in Hensoldt to a prospective buyer subject to price negotiations. On 27 August 2019, the Board of Denel approved the sale of Hensoldt with an indicative price and subject to the PFMA submission and approval of the sale. The sale has been subsequently approved by the Minister of Finance.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		GROUP			COMPANY		
		2019/20	2018/19 Restated*	2017/18 Restated*	2019/20	2018/19 Restated*	2017/18 Restated*
		R'm	R'm	R'm	R'm	R'm	R'm
22	CAPITAL AND PREMIUM						
	AUTHORISED CAPITAL						
	1 000 000 000 Class A ordinary shares of R1 each	1,000	1,000	1,000	1,000	1,000	1,000
	232 455 747 Class B ordinary shares of R1 each	232	232	232	232	232	232
		1,232	1,232	1,232	1,232	1,232	1,232
	ISSUED CAPITAL						
	Share capital issued at par value	1,225	1,225	1,225	1,225	1,225	1,225
	Share premium	6,751	4,951	4,951	6,751	4,951	4,951
		7,976	6,176	6,176	7,976	6,176	6,176

At year-end, the number of issued Class A ordinary shares was 1 000 000 000 (2018/19: 1 000 000 000; 2017/18: 1 000 000 000) and the number of issued Class B ordinary shares was 225 056 663 (2018/19: J35 225 056 663; 2017/18: 225 056 663). In August 2019, Denel issued 1 000 Class B ordinary shares to its shareholder at R1 par value and share premium of R1 799 999 999.

The unissued shares are under the control of the South African government, which is the sole shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur. None of the shares have preferential rights.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
23	LOANS AND BORROWINGS						
	Interest-bearing loans and borrowings						
	Lease liabilities	2	4	5	-	-	-
	Inter-group loans	-	-	-	-	-	-
	Unsecured loans	420	421	298	420	421	298
	Other	16	8	8	-	-	-
	Non-current portion non-interest bearing loans and borrowings	438	433	311	420	421	298
	Current interest bearing loans and borrowings	3,165	3,241	2,496	3,054	3,103	2,505
	Lease liabilities	14	2	3	14	-	-
	Inter-group loans	-	-	-	34	58	151
	Unsecured loans	145	194	139	-	-	-
	Secured loans	-	-	-	-	-	-
	Unsecured bonds	-	-	-	-	-	-
	Commercial paper	-	-	-	-	-	-
	Current portion of interest-bearing loans and borrowings included under current liabilities	3,006	3,045	2,354	3,006	3,045	2,354
	Total interst bearing loans and borrowings	3,603	3,674	2,807	3,474	3,524	2,803

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP		
		2020	2019	2018
Notes		R'm	R'm	R'm
23	LOANS AND BORROWINGS (CONTINUED)			
23.1	INTEGROUP LOANS			
	Denel Aerostructures SOC Ltd	-	29	85
	Densecure SOC Ltd	25	24	22
	DVS (SOC) Ltd	8	247	342
		33	300	449

Intragroup loans are, in actual fact, financial instruments that are managed by the group's treasury function. Amounts owing to Denel SOC Ltd are charged at prime minus 1.5%, while amounts due by Denel SOC Ltd are charged at prime minus 4%. The Audit Committee of the Board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. (Refer to Note 33.1). The amount comprises the following:

- Cash managed by the group's treasury function.
- Cash comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand, form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to being overdrawn.

23 LOANS AND BORROWINGS (CONTINUED)

23.2 UNSECURED BONDS

Denel registered a R3 bn (2014/15: R2.2 bn) Domestic Medium-Term Note programme with the JSE, which was increased to R4 bn during 2018/19. Under the programme, Denel could raise senior and/or subordinated notes up to the registered amount, and the amount at year-end was R3.2 bn (2018/19: R3.2 bn). The programme contains cross-default (indebtedness of outstanding amount equals or exceeds 1% (2018/19: 1%) of total asset of issuer) and negative pledge clause (which precludes the company from encumbering any assets or revenue of the company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims that it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2022.

The total borrowings, R3.4 bn (2018/19: R3.21 bn), is backed by government guarantees.

23.3 COMMERCIAL PAPER

During 2019/20, notes to the value of R3.085 bn (2018/19: R3.034 bn; 2017/18: R2.340 m) were issued as follows:

Issue date	Issue date	Maturity date	Rm
3 month JIBAR + 250 bps	21 August 2019	21 August 2021	50
3 month JIBAR + 175 bps	11 September 2019	11 September 2020	1,463
3 month JIBAR + 175 bps	23 September 2019	23 September 2020	264
3 month JIBAR + 175 bps	27 September 2019	27 September 2020	908
3 month JIBAR + 175 bps	27 September 2019	27 September 2020	50
3 month JIBAR + 175 bps	11 December 2019	11 December 2020	290
3 month JIBAR + 175 bps	31 January 2020	31 January 2021	20
3 month JIBAR + 300 bps	31 January 2020	31 January 2023	40
			3,085

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2020	2019	2018	2020	2019	2018
Notes		R'm	R'm	R'm	Rm	Rm	Rm
23	LOANS AND BORROWINGS (CONTINUED)						
23.4	WEIGHTED AVERAGE EFFECTIVE INTEREST RATES						
	Bank						
	Lease liabilities	-	9.1	9.3	-	-	-
	Local secured loans (floating rate)	-	-	-	-	6.1	6.3
	Local secured loans (floating rate)	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%
	Local secured loans (fixed rate)	-	-	JIBAR + 1.5%	-	-	JIBAR + 1.5%
	Secured mortgage (flaoting rate)	-	-	9.0	-	-	-
	Local unsecured loans (fixed rate)	8.8	8.8	8.7	8.8	8.8	8.7
	Current bank borrowings (floating rate)	9.9	8.9	9.3	9.9	8.9	9.3

		R'm	R'm	R'm	Rm	Rm	Rm
23.5	SUMMARY OF MATURITY OF BORROWINGS						
	Maturing:						
	Within three months	-	269	939	-	215	829
	Between three and twelve months	2,995	3,035	2,394	2,995	3,033	2,339
	Between one and two years	130	-	9	130	-	-
	Between two and three years	150	84	3	150	80	-
	Between three and five years	140	100	7	140	100	-
	More than five years	-	8	-	-	-	-
		3,415	3,496	3,352	3,415	3,428	3,168

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2020	2019	2018	2020	2019	2018
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	Rm	Rm	Rm
24	ADVANCE PAYMENTS RECEIVED						
	Non-current advance payments received	1,945	2,170	1,875	1,945	2,144	1,875
	Current advance payments received	1,001	1,085	2,029	891	958	1,838
	Total advance payments received	2,946	3,255	3,905	2,836	3,102	3,713
	The carrying amount of advance payments is received expected to be settled as follows:						
	Less than three months	73	52	263	-	14	81
	Between three and twelve months	976	2,246	3,024	909	2,000	2,769
	Between one and two years	212	275	500	212	240	488
	Between two and three years	287	670	1,644	287	653	1,639
	Between three and five years	1,393	2,782	4,801	1,393	2,704	4,775
	More than five years	78	2,886	962	61	2,886	962
		3,019	8,911	11,194	2,862	8,497	10,714

Since 2012/13, the group entered into large long-term contracts on which advance payments were received.

These advance payments will be settled over a period of up to ten years (2018/19: ten years; 2017/18: ten years) and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

Notes		Contract risk and onerous contracts	Performance guarantees	Product warranty and support	Site restoration	Counter trade	Insurance	Other	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
25	PROVISIONS								
	RECONCILIATION								
	GROUP								
	2019/20								
	Balance at 1 April	820	1	66	232	93	(1)	5	1,216
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	7	-	35	-	38	16	-	96
	Realised	-	-		(3)	-	(8)	(5)	(16)
	Unused amounts reversed	(511)	-	(44)	-	-	-	-	(555)
	Unwinding of discount on provisions	42	-	5	45	-	-	-	92
		358	1	62	274	131	7	-	833
	2018/19								
	Restated								
	Balance at 1 April	184	-	217	209	85	9	-	704
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	608	-	36	-	41	-	5	690
	Realised	(1)	-	(155)	-	(33)	(10)	-	(199)
	Unused amounts reversed	(48)	-	(41)	-	-	-	-	(89)
	Unwinding of discount on provisions	77	-	8	23	-	-	-	108
		820	-	65	232	93	(1)	5	1,214
	2017/18								
	Restated								
	Balance at 1 April	161	30	249	165	84	19	78	786
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	107	-	47	-	26	-	-	180
	Realised	(74)	(30)	(38)	(1)	(1)	(10)	(76)	(230)
	Unused amounts reversed	(10)	-	(42)	-	(23)	-	(2)	(77)
	Unwinding of discount on provisions	-	-	2	45	-	-	-	47
		184	-	218	209	86	9	-	706

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Contract risk and onerous contracts	Performance guarantees	Product warranty and support	Site restoration	Counter trade	Insurance	Other	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
25	PROVISIONS (CONTINUED)								
	COMPANY								
	2019/20								
	Balance at 1 April	150	-	44	228	24	(7)	5	444
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	4	-	24	-	19	16	-	63
	Realised	-	-	(10)	(3)	-	(8)	(5)	(26)
	Unused amounts reversed	(38)	-	(29)	-	-	-	-	(67)
	Unwinding of discount on provisions	-	-	3	44	-	-	-	47
		116	-	32	269	43	1	-	461
	2018/19								
	Restated								
	Balance at 1 April	57	-	156	205	31	3	-	452
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	96	-	30	-	24	-	5	155
	Realised	(1)	-	(130)	-	-	(10)	-	(141)
	Unused amounts reversed	(2)	(1)	(18)	-	(31)	-	-	(52)
	Unwinding of discount on provisions	-	-	6	23	-	-	-	29
		150	(1)	44	228	24	(7)	5	443
	2017/18								
	Restated								
	Balance at 1 April	46	30	191	161	20	19	36	503
	Business acquired	-	-	-	-	-	-	-	-
	Charged to the income statement	108	-	22	-	25	-	-	155
	Realised	(87)	(30)	(22)	(1)	-	(10)	(36)	(186)
	Unused amounts reversed	(10)	-	(37)	-	(14)	(6)	-	(67)
	Unwinding of discount on provisions	-	-	1	44	-	-	-	45
		57	-	155	204	31	3	-	450

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
25	PROVISIONS						
25.1	NON-CURRENT PROVISIONS						
	Contract risk and onerous contracts	(0)	272	94	-	-	-
	Product warranty and recall	96	95	97	75	69	69
	Site restoration	231	189	212	226	185	205
	Counter trade	80	64	52	-	-	-
		407	620	455	302	254	274
25.2	CURRENT PROVISIONS						
	Contract risk and onerous contracts	261	455	74	39	80	58
	Performance guarantees	-	-	(1)	-	-	(1)
	Product warranty and recall	104	101	123	80	86	90
	Site restoration	-	-	-	-	-	-
	Counter trade	47	28	34	39	24	31
	Insurance provision	17	9	19	-	-	-
	Other	1	1	1	1	1	1
		430	595	250	159	191	179

NOTES TO THE FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

25 PROVISIONS (CONTINUED)

Contract risks and onerous contracts

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract. Denel is under negotiations with a major client at its Aerostructure business to exit the contract in the next 48 months. As at 31 March 2019, the Board had approved the exit of this contract and had processed the required PFMA requirements. As such, a provision of R209 m has been recognised for the cost to be incurred on the exit of this contract.

Performance guarantees

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

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision has been estimated based on historical warranty data associated with similar products and services. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Countertrade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary and are calculated as a percentage of the export sales contract value. A provision for countertrade is raised once the group has a present legal or constructive obligation to settle them.

Other provisions

Other provisions comprise the following:

Legal costs and dispute

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or units within the group are involved. It also refers to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R0 m (2018/19: R0.8 m; 2017/18: R0.7 m) for both the group and company.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2019/20	2018/19	2017/18	2019/20	2018/19	2017/18
			Restated*	Restated*		Restated*	Restated*
Notes		R'm	R'm	R'm	R'm	R'm	R'm
26	TRADE AND OTHER PAYABLES						
	Financial liabilities						
	Trade payables	795	1,158	1,229	626	920	1,007
	Trade payables: Intergroup	-	-	-	-	-	-
	Other accruals	523	464	862	457	478	909
	Interest accrued	-	-	-	-	-	-
	Non-financial liabilities						
	Amounts due to customers for work invoiced, but not yet performed	152	152	256	123	123	221
	Other non-financial liabilities	15	45	37	7	32	25
		1,485	1,819	2,383	1,214	1,553	2,162

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

		R'm	R'm	R'm	R'm	R'm	R'm
27	CONTRACT LIABILITIES						
	Opening balance	(1,104)	(737)	(213)	(1,175)	(719)	(222)
	Adjustment	-	(57)	124	-	-	79
	Restated opening balance	(1,104)	(794)	(89)	(1,175)	(719)	(143)
	IFRS change	(263)	(528)	(328)	(67)	(456)	(565)
	Other	-	-	32	-	-	68
	New contracts	-	-	(50)	-	-	-
		(1,367)	(1,322)	(435)	(1,242)	(1,175)	(640)

Contract liabilities relating to construction contracts represent balances that are due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		COMPANY 2020 R'm	2019 R'm	2018 R'm
28	CONTINGENT LIABILITIES			
28.1	GUARANTEES			
	Advance payment guarantees	2,716	3,804	4,393
	Guarantees to banks for credit facilities of subsidiaries	-	-	39
	Guarantees to local authorities	10	16	15
	Participating guarantees	-	-	17
	Performance guarantees	687	808	806
	Other guarantees	109	249	251
	Total of guarantees issued	3,522	4,877	5,521
	Guarantees issued on behalf of associated companies	-	(98)	(94)
	Advance payment guarantees	-	(14)	(11)
	Guarantees to banks for credit facilities of subsidiaries	-	(39)	(39)
	Performance guarantees	-	(36)	(34)
	Other guarantees	-	(9)	(10)
		3,522	4,779	5,427

28.2 LITIGATION

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

The aggregate amount of significant claims lodged against the company not specifically provided for is R575 m (2017/18: R,42 m; 2017/18: Rnil). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims other than that which have already been provided for. Details of some of the key issues are provided below:

The group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of contracts that were in progress and the loss of potential contracts, as well as the call up of related performance guarantees. There are ongoing arbitrations between the parties and indications are that the matters will be resolved. It is not possible at this stage to estimate the potential damages and legal costs involved as the matters are *sub judice*.

28.3 CONTRACT LOSSES

One of the group's subsidiaries is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately 2019/20: R0 bn (2018/19: R2.5 bn; 2017/18: R2.5 bn) and an estimated contract loss of approximately R1.4 bn (2017/18: R1.4 bn). This loss has not been raised as a provision following a written commitments received from the shareholder stating its support, including financial, for the continuation of the contract, despite it being loss making, as it has certain strategic advantages to the country. During 2012, various onerous terms and conditions to the contract were renegotiated to mitigate risk to the company and shareholder.

28.4 SITE RESTORATION

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to Note 1. A contingency of 15% (2018/19: 15%; 2017/18: 15%) of the estimated cost, as recommended by the consultants, was not included in determining the site restoration provision. The contingency would have been to cover risks arising from the unknown depth of contamination and the volume of the material to be cleaned up. After an initial clean up, the site will be tested for explosive ordinates to assess whether there should be any further clean up, which may impact on the provision. Had the contingency been included, the provision would have been increased by 2018/19: R33.9 m (2017/18: R31.6 m; 2016/17: R31 m) for both the group and company.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		2019/20			2018/19			2017/18		
		Export contracts	Local contracts	Total	Export contracts	Local contracts	Total	Export contracts	Local contracts	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
28	CONTINGENT LIABILITIES									
28.5	COUNTERTRADE									
	Countertrade obligation									
	Total countertrade obligation	10,616	9,683	20,299	8,507	7,930	16,437	4,460	6,963	11,423
	Obligation discharged	(8,350)	(2,622)	(10,972)	(6,679)	(2,087)	(8,766)	(2,439)	(1,730)	(4,169)
	Outstanding obligation	2,266	7,061	9,327	1,828	5,843	7,671	2,021	5,233	7,254
	To be settled by third party	-	(4,558)	(4,558)	-	(3,789)	(3,789)	-	(3,429)	(3,429)
	Net obligation of the group	2,266	2,503	4,769	1,828	2,054	3,882	2,021	1,804	3,825
	Penalties									
	Maximum penalty for non-compliance	205	351	556	167	292	459	177	262	439
	Third party obligation	-	(228)	(228)	-	(189)	(189)	-	(171)	(171)
	Net group exposure	205	123	328	167	103	270	177	91	268
	Guarantees issued									
	Group issued	78	117	195	11	96	107	55	85	140
	Third-party guarantees	-	28	28	-	23	23	-	20	20
		78	145	223	11	119	130	55	105	160
	Provision to settle obligation	-	-	-	-	-	-	1	-	1

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

These countertrade obligations can be fulfilled in one or a combination of the following ways:
- Production work share and technology transfer
- Procurement of products and services from suppliers in the buyer's country
- Participation in a business venture in the buyer's country.

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations. The group issued guarantees to the value of R93 m (2017/18: R111 m; 2016/17: R75 m) to enable the contracting country to raise penalties on the non-fulfilment of countertrade obligations.

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

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

The table above summarises the group's countertrade position:

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		2020	2019	2018	2020	2019	2018
Notes		R'm	R'm	R'm	R'm	R'm	R'm
29	CAPITAL COMMITMENTS						
	Approved and contracted for						
	Property, plant and equipment	3	3	126	1	-	106
	Land and buildings	2	-	5	-	-	5
	Computer equipment	-	-	-	-	-	-
	Machinery and equipment	1	1	117	1	-	99
	Vehicles	-	-	2	-	-	2
	Work in progress	-	2	2	-	-	-
	Investment properties	-	13	-	-	12	-
		3	16	126	1	12	106
30	CASH GENERATED FROM/(USED IN) OPERATIONS						
	Loss before taxation	(1,962)	(1,469)	(2,104)	(1,427)	(2,491)	(1,659)
	Adjustments for:						
	Depreciation and amortisation	123	73	149	71	(7)	112
	Fair value adjustments	(27)	(46)	(53)	(27)	(44)	(53)
	Interest income	(168)	(232)	(231)	(157)	(190)	(213)
	Finance costs	744	850	1,331	696	750	1,303
	Other net gains on financial instruments	5	-	-	-	-	-
	Net impairments and movements in credit loss allowances	170	199	10	107	139	19
	Expected credit losses	-	-	-	-	4	-
	Foreign gains and losses	194	(17)	156	(41)	153	161
	Share of profit of associate	(62)	(226)	(425)	-	-	-
	Changes in working capital:	173	596	4,674	1,639	2,739	1,817
	Inventories	378	504	215	295	405	116
	Trade and other receivables	22	483	836	42	339	514
	Other receivables	(917)	(2,264)	4,817	1,198	-	775
	Prepayments	8	50	143	17	57	134
	Other payables	29	18	27	29	18	27
	Trade and other payables	45	886	(123)	67	534	340
	Contract assets	188	550	(883)	(93)	862	(329)
	Movements in provisions	376	(516)	(235)	18	(10)	(100)
	Contract liabilities	45	886	(123)	67	534	340
		(811)	(271)	3,507	862	1,052	1,487

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Buildings	Computer equipment	Office furniture	Plant & machinery	Vehicles	Total
		R'm	R'm	R'm	R'm	R'm	R'm
Notes	Non-cancellable leases						
31	COMPANY						
	2020						
	Less than one year	48	-	-	-	-	48
	Between one and five years	119	-	-	-	-	119
	More than five years	-	-	-	-	-	-
		167	-	-	-	-	167
	2019						
	Less than one year	48	-	-	-	-	48
	Between one and five years	167	-	-	-	-	167
	More than five years	24	-	-	-	-	24
		239	-	-	-	-	239
	2018						
	Less than one year	49	-	-	-	-	49
	Between one and five years	215	-	-	-	-	215
	More than five years	48	-	-	-	-	48
		312	-	-	-	-	312

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		COMPANY		
		2020	2019	2018
Notes		R'm	R'm	R'm
32	RELATED PARTIES			
	Compensation paid to key management personnel	-	-	-
	(including information in the directors' report):	-	-	-
	Short-term employee benefits	-	25	13
	Post-employee benefits	-	-	1
	Long-term employee benefits	-	-	8
	Termination benefits	-	-	-
		-	25	22

	2020	2019	2018
	R'm	R'm	R'm
Directors' fees paid or accrued to the non-executive directors of the group			
Mr LD Mantsha*	-	-	859
Ms M Kgomongoe*	-	-	336
Ms P Mahlangu*	-	-	306
Ms R Mokoena*	-	-	23
Mr TJ Msomi*	-	-	74
Lt Gen TM Nkabinde (retired)*	-	-	313
Ms KPS Ntshavheni*	-	-	360
Ms N Mandindi*	-	-	-
Mr NJ Motseki*	-	-	-
Ms M W Hlahla	962	941	-
Mr Z Kunene	-	207	-
Prof T Marwala	-	208	-
Lt Gen (retired) T T Matanzima	326	112	-
Mrs GT Serobe	389	616	-
Mr MT Sadik	1,644	842	-
Ms SR Rabkin	446	665	-
Dr SP Sibisi	268	585	-
Ms N Siyotula	413	504	-
Mr TH Magazi	751	693	-
Mr MM Mnisi	269	385	-
Ms MK Lehloenya	586	255	-
Dr H Nel	526	515	-
Gen (retired) S Nyanda	363	454	-
	6,943	6,982	2,271

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	2020								2019	2018
	Salaries	Pension fund contribution	Medical aid contribution	Other [12]	Company contribution	Short-term incentive	Lump sum	Total	Total	Total
	R'000								R'000	R'000
32 RELATED PARTIES (CONTINUED)										
Amounts paid/accrued to executives of the group										
Executive directors										
Mr ZN Ntshepe [2]	-	-	-	-	-	-	-	-	907	3,513
Mr ZM Mhlwana [3]	-	-	-	-	-	-	-	-	2,172	7,023
Mr D du Toit [1]	4,114	149	129	343	265	-	-	5,000	3,217	-
Ms C le Grange [4]	1,520	61	34	247	108	-	-	1,970	-	-
Sub-total	5,634	210	163	590	373	-	-	6,970	6,296	10,536
Prescribed officers										
Ms VQ Qinga [5]	327	12	18	27	22	-	628	1,035	2,756	2,231
Mr T Klenyhans [10]	399	-	13	4	-	-	3,200	3,616	3,406	1,435
Mr W Hlokoane	1,860	67	137	148	119	-	-	2,331	-	-
Mr A Nqwaba	1,162	43	52	97	76	-	-	1,429	-	-
Mr W de Klerk [11]	517	-	-	43	-	-	-	560	1,344	-
Ms Ngema	1,532	56	60	128	100	-	300	2,175	-	-
Mr G van Zyl	715	28	57	149	50	-	-	1,000	-	-
Ms V Xaxa [6]	-	-	-	-	-	-	-	-	1,885	-
Mr DDT Mbhele [8]	-	-	-	-	-	-	-	-	2,667	2,417
Mr O Mothudi [9]	-	-	-	-	-	-	-	-	1,463	-
Mr M Kgobe	-	-	-	-	-	-	-	2,607	2,574	2,619
Mr MX Makhathini	-	-	-	-	-	-	-	2,897	2,831	2,108
Sub-total	6,512	206	337	596	367	-	4,128	17,650	18,926	10,810
Total	12,146	416	500	1,186	740	-	4,128	24,620	25,222	21,346

1 Appointed as GCEO effective 14 January 2019
2 Resigned as GCEO effective 12 June 2018
3 Resigned as GCFO effective 9 November 2018
4 Appointed as GCFO effective 9 September 2019
5 Resigned as Group Executive Communications and Public Affairs effective 31 May 2019
6 Resigned as Group Company Secretary effective 7 December 2018
7 Includes lump sum payment on variation of contract from permanent to contract basis
8 Resigned as GCOO effective 30 November 2018
9 Resigned as Group Internal Audit Executive effective 7 January 2019
10 Resigned as Group Executive Strategy effective 4 April 2019
11 Resigned as GCFO effective 31 May 2019
12 Other includes mainly 13th cheques and car allowances

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
32	RELATED PARTIES								
	The following transactions were carried out with related parties:								
	GROUP								
	2020								
	Advance payments made	17	-	-	-	-	-	-	-
	Advance payments received	24	-	31	1	-	2,009	132	-
	Allowance of doubtful debts	-	-	-	-	-	-	8	-
	Amounts written off during the period	-	3	-	-	-	-	-	-
	Dividends received	-	26	-	85	-	-	-	-
	Guarantees issued to related parties	-	-	26	-	-	2,027	27	-
	Guarantees issued to third parties by related parties	-	-	-	-	-	4	-	-
	Guarantees issued to third parties	-	-	-	-	-	-	-	-
	on behalf of related parties	-	4,000	-	68	-	-	-	-
	Interest paid	76	-	12	-	-	-	-	-
	Interest received	87	-	-	-	-	-	-	-
	Lease payments	54	-	10	-	-	-	-	-
	Lease receivables	-	-	-	-	-	-	-	-
	Outstanding balances payable	282	36	683	4	-	9	8	-
	Outstanding balances receivable	767	40	1	45	-	8	31	-
	Penalties paid	-	-	-	-	-	-	-	-
	Penalties received	-	-	-	-	-	-	-	-
	Provision for penalties paid	-	-	-	-	-	-	-	-
	Provision for penalties received	-	-	-	-	-	-	-	-
	Purchases of goods	9	86	2	2	-	-	2	20
	Purchases of properties and other assets	-	-	-	-	-	-	-	-
	Sales of goods	25	147	-	49	-	367	723	-
	Sales of properties and other assets	-	-	-	-	-	-	-	-
	Services received	219	14	94	-	-	106	13	-
	Services rendered	8	-	5	-	-	-	1	-
	Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
	Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
	Transfers under finance agreements	-	-	-	-	-	-	-	-
	Transfers under licence agreements	1,570	4,351	866	255	-	4,530	944	20
		3,139	8,702	1,731	509	-	9,062	1,888	39

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
RELATED PARTIES (CONTINUED)								
2019								
Advance payments made	-	-	-	-	-	-	-	-
Advance payments received	26	-	-	12	-	-	151	-
Allowance of doubtful debts	-	-	-	-	-	-	8	-
Amounts written off during the period	-	3	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	230	-	-	265	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties	-	-	-	-	-	-	-	-
on behalf of related parties	-	-	22	286	-	-	-	-
Interest paid	78	-	1	-	-	-	-	-
Interest received	82	-	3	-	-	-	-	-
Lease payments	51	-	13	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	887	52	387	13	-	-	2	-
Outstanding balances receivable	424	41	33	73	-	11	34	-
Penalties paid	-	-	-	-	-	-	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Provision for penalties received	-	-	-	-	-	-	-	-
Purchases of goods	12	87	1	414	-	-	-	1
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	62	144	-	-	-	121	571	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	213	20	101	2	-	161	6	-
Services rendered	8	-	6	87	-	-	311	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-
Transfers under licence agreements	1,842	347	565	1,116	-	293	1,348	1
	-	-	-	-	-	-	-	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
RELATED PARTIES (CONTINUED)									
2018									
Advance payments made		-	-	-	-	-	-	-	-
Advance payments received		-	-	-	-	-	-	-	-
Allowance of doubtful debts		-	-	-	-	-	-	-	-
Amounts written off during the period		-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-
Guarantees issued to related parties		-	-	-	-	-	275	104	-
Guarantees issued to third parties by related parties		400	-	-	-	-	-	-	-
Guarantees issued to third parties		-	-	-	-	-	-	-	-
on behalf of related parties		39	-	-	-	-	-	-	-
Interest paid		-	-	-	-	-	-	-	-
Interest received		50	-	-	-	-	-	-	-
Lease payments		25	-	-	-	-	-	-	-
Lease receivables		-	-	-	-	-	-	-	-
Outstanding balances payable		730	9	-	-	-	55	-	-
Outstanding balances receivable		602	-	-	-	-	-	1	-
Penalties paid		-	-	-	-	-	-	-	-
Penalties received		-	-	-	-	-	-	-	-
Provision for penalties paid		-	-	-	-	-	-	-	-
Provision for penalties received		-	-	-	-	-	-	-	-
Purchases of goods		13	8	-	382	-	-	-	-
Purchases of properties and other assets		-	-	-	-	-	-	-	-
Sales of goods		53	-	-	-	-	332	-	-
Sales of properties and other assets		24	-	-	-	-	-	-	-
Services received		372	6	-	-	-	-	-	-
Services rendered		11	-	-	-	-	1	-	-
Settlement of liabilities on behalf of another related party		-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity		-	-	-	-	-	-	-	-
Transfers under finance agreements		-	-	-	-	-	-	-	-
Transfers under licence agreements		2,336	23	-	382	-	664	104	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures R'm	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
32	RELATED PARTIES								
	The following transactions were carried out with related parties:								
	COMPANY								
	2020								
	Advance payments made	-	-	-	-	-	-	-	-
	Advance payments received	24	-	-	1	-	2,009	132	-
	Allowance of doubtful debts	-	-	-	-	-	-	8	-
	Amounts written off during the period	-	1	-	-	-	-	-	-
	Dividends received	-	26	-	85	-	-	-	-
	Guarantees issued to related parties	-	-	-	-	-	2,027	27	-
	Guarantees issued to third parties by related parties	-	-	-	-	-	4	-	-
	Guarantees issued to third parties	-	-	-	-	-	-	-	-
	on behalf of related parties	-	4,000	-	68	-	-	-	-
	Interest paid	61	-	-	-	-	-	-	-
	Interest received	38	-	-	-	-	-	-	-
	Lease payments	54	-	-	-	-	-	-	-
	Lease receivables	-	-	-	-	-	-	-	-
	Outstanding balances payable	239	18	-	4	-	9	8	-
	Outstanding balances receivable	732	20	-	45	-	8	31	-
	Penalties paid	-	-	-	-	-	-	-	-
	Penalties received	-	-	-	-	-	-	-	-
	Provision for penalties paid	-	-	-	-	-	-	-	-
	Provision for penalties received	-	-	-	-	-	-	-	-
	Purchases of goods	5	43	-	2	-	-	2	20
	Purchases of properties and other assets	-	-	-	-	-	-	-	-
	Sales of goods	14	72	-	49	-	367	723	-
	Sales of properties and other assets	-	-	-	-	-	-	-	-
	Services received	218	7	-	-	-	106	13	-
	Services rendered	8	-	-	-	-	-	1	-
	Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
	Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
	Transfers under finance agreements	-	-	-	-	-	-	-	-
	Transfers under licence agreements	-	-	-	-	-	-	-	-
		1,301	4,187	-	255	-	4,531	944	20

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
RELATED PARTIES (CONTINUED)									
2019									
Advance payments made		-	-	-	-	-	-	-	-
Advance payments received		26	-	-	12	-	-	151	-
Allowance of doubtful debts		-	-	-	-	-	-	8	-
Amounts written off during the period		-	1	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-
Guarantees issued to related parties		-	-	-	230	-	-	265	-
Guarantees issued to third parties by related parties		-	-	-	-	-	-	-	-
Guarantees issued to third parties		-	-	-	-	-	-	-	-
on behalf of related parties		-	-	-	286	-	-	-	-
Interest paid		70	-	1	-	-	-	-	-
Interest received		25	-	-	-	-	-	-	-
Lease payments		51	-	-	-	-	-	-	-
Lease receivables		-	-	-	-	-	-	-	-
Outstanding balances payable		809	28	-	10	-	-	2	-
Outstanding balances receivable		134	21	-	73	-	11	34	-
Penalties paid		-	-	-	-	-	-	-	-
Penalties received		-	-	-	-	-	-	-	-
Provision for penalties paid		-	-	-	-	-	-	-	-
Provision for penalties received		-	-	-	-	-	-	-	-
Purchases of goods		7	43	-	414	-	-	-	1
Purchases of properties and other assets		-	-	-	-	-	-	-	-
Sales of goods		48	72	-	-	-	-	571	-
Sales of properties and other assets		-	-	-	-	-	-	-	-
Services received		119	10	-	-	-	161	6	-
Services rendered		8	-	-	87	-	-	311	-
Settlement of liabilities on behalf of another related party		-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity		-	-	-	-	-	-	-	-
Transfers under finance agreements		-	-	-	-	-	-	-	-
Transfers under licence agreements		1,297	175	-	1,111	-	172	1,348	1
		-	-	-	-	-	-	-	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
RELATED PARTIES (CONTINUED)									
2018									
Advance payments made		-	-	-	-	-	-	-	-
Advance payments received		-	-	-	-	-	-	-	-
Allowance of doubtful debts		-	-	-	-	-	-	-	-
Amounts written off during the period		-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-
Guarantees issued to related parties		-	-	-	-	-	275	104	-
Guarantees issued to third parties by related parties		200	-	-	-	-	-	-	-
Guarantees issued to third parties		-	-	-	-	-	-	-	-
on behalf of related parties		19	-	-	-	-	-	-	-
Interest paid		-	-	-	-	-	-	-	-
Interest received		8	-	-	-	-	-	-	-
Lease payments		13	-	-	-	-	-	-	-
Lease receivables		-	-	-	-	-	-	-	-
Outstanding balances payable		339	2	-	-	-	27	-	-
Outstanding balances receivable		90	-	-	-	-	-	-	-
Penalties paid		-	-	-	-	-	-	-	-
Penalties received		-	-	-	-	-	-	-	-
Provision for penalties paid		-	-	-	-	-	-	-	-
Provision for penalties received		-	-	-	-	-	-	-	-
Purchases of goods		10	-	-	382	-	-	-	-
Purchases of properties and other assets		-	-	-	-	-	-	-	-
Sales of goods		4	-	-	-	-	-	-	-
Sales of properties and other assets		12	-	-	-	-	-	-	-
Services received		172	2	-	-	-	-	-	-
Services rendered		5	-	-	-	-	1	-	-
Settlement of liabilities on behalf of another related party		-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity		-	-	-	-	-	-	-	-
Transfers under finance agreements		-	-	-	-	-	-	-	-
Transfers under licence agreements		873	5	-	382	-	303	104	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

33 FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The roles and responsibilities of the Audit Committee include the following:

- Approval of all counter parties
- Approval of new instruments
- Approval of foreign exchange transaction company policy
- Approval of the investment policy
- Approval of corporate treasury policy and procedure manual
- Recommend to the Board for approval of the long-term funding requirements

The 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 Board.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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33.1 CREDIT RISK

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

Receivables from customers

The Audit Committee of the Board has an established policy for the management of credit risk arising from receivables from customers. Under this policy, the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Divisions and subsidiaries are required to review the following before entering into a contract or submitting a proposal to a potential client:

- The potential client's compliance with statutory and regulatory conditions.
- The political risk of the potential client's country.
- The previous business record that the existing client had with entities within the group (this includes but is not limited to payment history)
- Obtain the most recent credit rating from the treasury department of the country that the potential customer operates in. Countries are graded by major international banks and these gradings are published on a regular basis. The group uses the international publication, "Institutional investor", as a basis for its country risk assessments.

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

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

Financial instruments managed by the group's treasury function

The Finance and Investment Committee of the Board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. Counterparties are assessed based on their official Fitch ratings. Counterparties are approved by the Finance and Investment Committee. Various rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with certain counterparties, usually banks with F1 and F1+ short-term ratings, AA long-term ratings and a minimum of R2 bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1+ rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and are approved by the GCFO.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		2020 Domestic R'm	2020 Foreign R'm	2020 Total R'm	2019 Domestic R'm	2019 Foreign R'm	2019 Total R'm	2018 Domestic R'm	2018 Foreign R'm	2018 Total R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)									
33.1	CREDIT RISK (CONTINUED)									
	Credit exposure and concentration of credit risk									
	The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the concentration of risk for all non-derivative financial assets:									
	GROUP									
	Trade receivables (refer to Note 17)	381	354	735	96	571	667	250	1,211	1,461
	Government and related entitles	102	37	139	18	116	134	82	391	473
	Non-government entities	279	317	596	78	455	533	168	820	988
	Other receivables (refer to Note 17)	175	4	77	77	-	77	131	-	131
	Government and related entitles	51	-	(51)	38	-	38	82	-	82
	Non-government entities	124	4	128	39	-	39	49	-	49
	Interest receivable (refer to Note 17)	288	-	178	152	-	152	134	-	134
	Government and related entitles	110	-	-	-	-	-	1	-	1
	Non-government entities	178	-	178	152	-	152	133	-	133
	Loans and receivables (refer to Note 13)	590	-	590	-	-	-	-	-	-
	Government and related entitles	590	-	590	-	-	-	-	-	-
	Non-government entities	-	-	-	-	-	-	-	-	-
	Cash and short-term deposits (refer to Note 20)	385	16	401	584	8	592	1,072	197	1,269
	Government and related entitles	43	-	43	-	-	-	-	-	-
	Non-government entities	342	16	358	584	8	592	1,072	197	1,269
		1,819	374	2,193	909	579	1,488	1,587	1,408	2,995

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		2020 Domestic R'm	2020 Foreign R'm	2020 Total R'm	2019 Domestic R'm	2019 Foreign R'm	2019 Total R'm	2018 Domestic R'm	2018 Foreign R'm	2018 Total R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)									
33.1	CREDIT RISK (CONTINUED)									
	Credit exposure and concentration of credit risk									
	The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the concentration of risk for all non-derivative financial assets:									
	COMPANY									
	Trade receivables (refer to Note 17)	379	313	692	123	429	552	135	1,032	1,167
	Government and related entities	101	37	138	48	116	164	77	391	468
	Non-government entities	278	276	554	75	313	388	58	641	699
	Other receivables (refer to Note 17)	262	-	262	53	-	53	88	1	89
	Government and related entities	25	-	25	14	-	14	42	1	43
	Non-government entities	237	-	237	39	-	39	46	-	46
	Interest receivable (refer to Note 17)	340	4	344	-	-	-	-	-	-
	Government and related entities	149	-	149	-	-	-	-	-	-
	Non-government entities	191	4	195	-	-	-	-	-	-
	Loans and receivables (refer to Note 13)	590	-	590	-	-	-	-	-	-
	Government and related entities	590	-	590	-	-	-	-	-	-
	Non-government entities	-	-	-	-	-	-	-	-	-
	Cash and short-term deposits (refer to Note 20)	385	16	401	457	85	542	867	228	1,095
	Government and related entities	43	-	43	-	-	-	-	-	-
	Non-government entities	342	16	358	457	85	542	867	228	1,095
		1,956	333	2,289	633	514	1,147	1,090	1,261	2,351

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

	2020				2019				2018			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
Notes	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)												
33.1 CREDIT RISK (CONTINUED)												
Ageing												
The ageing of financial assets at the reporting date is included below. The ageing categories include:												
GROUP												
Trade receivables (Note 17)	707	(47)	-	660	523	288	(146)	665	1,460	58	(58)	1,460
Not past due	108	(8)	-	100	121	61	(37)	145	398	-	-	398
Less than 30 days	20	(7)	-	13	22	23	(3)	42	61	-	-	61
30 to 60 days	31	-	-	31	37	14	(1)	50	50	-	-	50
61 to 90 days	225	(6)	-	219	11	5	-	16	65	9	(9)	65
More than 90 days	322	(26)	-	296	332	185	(105)	412	886	49	(49)	886
Sundry receivables (Note 17)	55	(14)	-	41	85	1	(1)	85	132	1	(1)	132
Not past due	33	-	-	33	62	-	-	62	124	-	-	124
Less than 30 days	1	-	-	1	18	-	-	18	6	-	-	6
30 to 60 days	3	(14)	-	(11)	-	-	-	-	-	-	-	-
61 to 90 days	15	-	-	15	-	-	-	-	-	-	-	-
More than 90 days	3	-	-	3	5	1	(1)	5	2	1	(1)	2
Interest receivables (Note 17)	393	-	-	393	-	-	-	-	1	-	-	1
Not past due	393	-	-	393	-	-	-	-	1	-	-	1
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	-	-	-	-	-	-	-	-	-	-	-	-
Cash and short-term deposits (Note 20)	42	50	-	50	592	-	-	592	1,269	-	-	1,269
Not past due	42	50	-	92	592	-	-	592	1,269	-	-	1,269
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	-	-	-	-	-	-	-	-	-	-	-	-
	1,197	(11)	-	1,144	1,200	289	(147)	1,342	2,862	59	(59)	2,862

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		2020				2019				2018			
		Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)												
33.1	CREDIT RISK (CONTINUED)												
	Ageing												
	The ageing of financial assets at the reporting date is included below. The ageing categories include:												
	COMPANY												
	Trade receivables (Note 17)	41	376	-	417	376	268	(93)	551	1,167	51	(51)	1,167
	Not past due	-	59	-	59	78	60	(3)	135	258	-	-	258
	Less than 30 days	37	-	-	37	16	22	(3)	35	33	-	-	33
	30 to 60 days	-	8	-	8	31	14	-	45	16	-	-	16
	61 to 90 days	4	28	-	32	9	5	-	14	54	9	(9)	54
	More than 90 days	-	281	-	281	242	167	(87)	322	806	42	(42)	806
	Sundry receivables (Note 17)	-	29	-	29	53	-	-	53	89	-	-	89
	Not past due	-	13	-	13	33	-	-	33	82	-	-	82
	Less than 30 days	-	1	-	1	-	-	-	-	-	-	-	-
	30 to 60 days	-	-	-	-	17	-	-	17	6	-	-	6
	61 to 90 days	-	15	-	15	-	-	-	-	-	-	-	-
	More than 90 days	-	-	-	-	3	-	-	3	1	-	-	1
	Interest receivables (Note 17)	393	-	-	393	-	-	-	-	1	-	-	1
	Not past due	393	-	-	393	-	-	-	-	1	-	-	1
	Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
	30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
	61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
	More than 90 days	-		-	-	-	-	-	-	-	-	-	-
	Cash and short-term deposits (Note 20)	-	42	-	42	465	-	-	465	1,269	-	-	1,269
	Not past due	-	42	-	42	465	-	-	465	1,269	-	-	1,269
	Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
	30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
	61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
	More than 90 days	-	-	-	-	-	-	-	-	-	-	-	-
		434	447	-	880	894	268	(93)	1,069	2,526	51	(51)	2,526

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		COMPANY 2019/20 R'm	2018/19 R'm	2017/18 R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)			
33.1	CREDIT RISK (CONTINUED)			
	Security held over non-derivative financial assets			
	Irrevocable letters of credit confirmed by foreign banks	60	182	147

33.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive. This risk may arise when there are mismatches between receipts and payments. As well as when there are limited funds available to fund that gap.

The group has a centralised treasury that manages the liquidity of the group, taking into account assets, liabilities and commitments to ensure that there is sufficient liquidity within the group as a whole. This ensures that updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. Further to that, the group maintains a range of funding sources and liquidity contingency plans. The group's government guarantees of R4.4 bn (2018/19:R4.4 bn) to raise borrowings. These guarantees expire on 30 September 2023.

Surplus funds are deposited in liquid assets (i.e. negotiable certificates or deposits and call deposits) (refer to Note 20). See balances of funds deposited below:

	2019/20 R'm	2018/19 R'm	2017/18 R'm
Undrawn credit facilities			
SA Rand (Rm)	-	194	139
US Dollar ($m)	-	-	-

The group has undrawn facilities to the value of R0

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

		CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
Notes		R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.2	LIQUIDITY RISK (CONTINUED)						
	GROUP						
	2020						
	Interest-bearing loans and borrowings (Note 23)	1,039	1,574	722	806	42	4
	Trade and other payables (Note 26)	1,564	1,454	229	936	289	-
	Derivative financial liabilities (Note 19)	80	80	80	-	-	-
	Guarantees (Note 28.1)	333	333	-	-	325	8
		3,017	3,441	1,031	1,742	656	12
	2019						
	Interest-bearing loans and borrowings (Note 23)	3,495	3,421	194	3,035	184	8
	Trade and other payables (Note 26)	1,711	1,672	546	1,126	-	-
	Derivative financial liabilities (Note 19)	17	17	3	14	-	-
	Guarantees (Note 238.1)	-	-	-	-	-	-
		5,223	5,110	743	4,175	184	8
	2018						
	Interest-bearing loans and borrowings (Note 23)	3,342	3,342	930	2,394	18	-
	Trade and other payables (Note 26)	2,242	2,371	794	1,577	-	-
	Derivative financial liabilities (Note 19)	2	3	2	1	-	-
	Guarantees (Note 28.1)	-	-	-	-	-	-
		5,586	5,716	1,726	3,972	18	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
			CONTRACTUAL UNDISCOUNTED CASH FLOWS				
		R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.2	LIQUIDITY RISK (CONTINUED)						
	COMPANY						
	2020						
	Interest-bearing loans and borrowings (Note 23)	366	160	140	16	-	4
	Trade and other payables (Note 26)	774	955	43	623	289	-
	Derivative financial liabilities (Note 19)	-	-	-	-	-	-
	Guarantees (Note 28.1)	282	282	-	-	282	-
		1,422	1,397	183	639	571	4
	2019						
	Interest-bearing loans and borrowings (Note 23)	3,412	3,407	194	3,033	180	-
	Trade and other payables (Note 26)	1,434	1,422	577	845	-	-
	Derivative financial liabilities (Note 19)	10	10	-	10	-	-
	Guarantees (Note 28.1)	-	-	-	-	-	-
		4,856	4,839	771	3,888	180	-
	2018						
	Interest-bearing loans and borrowings (Note 23)	3,168	3,168	829	2,339	-	-
	Trade and other payables(Note 26)	2,029	1,454	1	1,453	-	-
	Derivative financial liabilities (Note 19)	2	3	2	1	-	-
	Guarantees (Note 28.1)	-	-	-	-	-	-
		5,199	4,625	832	3,793	-	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK

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

Entities

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

Treasury

Treasury is responsible for reporting to the Audit Committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the GCFO and Executive Committee on a weekly and monthly basis, respectively.

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

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to upward interest rate movements on loans and borrowings. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The Finance and Investment Committee determines the interest rate risk strategy, based on economic expectations and reports received from the treasury department. The treasury department monitors interest rates on a daily basis and the policy is to maintain short-term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

		GROUP			COMPANY		
		20120	2019	2018	2020	2019	2018
Notes		R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.3	MARKET RISK (CONTINUED)						
	Interest rate risk						
	Fixed rate instruments						
	Bank overdraft	-	10	-	-	10	-
	Cash and short-term deposits	22	48	22	6	40	10
	Cash managed on behalf of associated companies	-	-	-	-	-	-
	Commercial paper	-	-	10	-	-	10
	Loans and borrowings	2	14	17	-	-	-
	Loans and other receivables	-	-	-	-	-	-
	Treasury asset	-	-	-	-	-	-
	Fixed rate instruments						
	Fair value sensitivity analysis for fixed rate instruments						
	The group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at the reporting date would not affect profit and loss.						
	Variable rate instruments						
	Bank overdraft	-	-	-	-	-	-
	Cash and short-term deposits	368	510	1,247	348	420	1,058
	Commercial paper	-	-	-	-	-	-
	Loans and borrowings	144	3,418	3,315	144	3,419	3,158
	Loans and other receivables	-	-	-	-	-	-
	Treasury asset	-	-	-	-	-	-
	Cash flow sensitivity analysis for variable rate instruments						
	A change of 50 basis points in interest rates at the reporting date would have increased or decreased profit and loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit and loss.						
	Cash and cash equivalents						
	Net effect on profit or loss is equal but opposite for a 50-basis-points-increase on the financial instruments listed above.	-	15	10	-	13	10

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		USD			EUR		
		2020	2019	2018	2020	2019	2018
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.4	CURRENCY RISK						
	GROUP						
	Assets	31	42	104	-	18	92
	Trade receivables	4	11	36	-	16	77
	Controlled foreign currency (CFC) accounts	8	-	10	-	1	6
	Firm commitment (export revenue)	19	31	58	-	1	9
	Liabilities	(12)	(6)	(68)	-	(13)	(28)
	Trade payables	2	(6)	(46)	-	(9)	(1)
	Firm commitment (import)	(14)	-	(22)	-	(4)	(27)
	Gross balance sheet exposure	19	36	36	-	5	64
	Forecast transcations (revenue)	-	31	58	-	2	7
	Forecast transcations (purchases)	(14)	-	-	-	(4)	(19)
	Gross balance sheet exposure	(1)	67	94	-	3	52
	Forward exchange contracts	-	-	-	-	-	-
	Export revenue	(19)	(31)	42	-	(1)	(9)
	Import	(14)	-	(58)	-	4	19
	Net exposure	(34)	36	78	-	6	62

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		USD 2020	USD 2019	USD 2018	EUR 2020	EUR 2019	EUR 2018
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.4	CURRENCY RISK (CONTINUED)						
	GROUP						
	Assets	10	78	78	-	79	80
	Trade receivables	2	43	29	-	69	69
	CFC accounts	8	6	9	-	1	1
	Firm commitment (export revenue)	-	29	40	-	9	10
	Liabilities	(12)	(12)	(67)	-	(13)	(13)
	Trade payables	3	(4)	(45)	-	(6)	(6)
	Firm Commitment(import)	(14)	(8)	(22)	-	(7)	(7)
	Gross balance sheet exposure	(7)	66	11	-	66	67
	Forecast transcations (revenue)	-	27	40	-	8	8
	Forecast transcations (purchases)	(14)	(7)	-	-	(7)	(7)
	Gross balance sheet exposure	(21)	86	51	-	67	68
	Forward exchange contracts	-	-	-	-	-	-
	Export revenue	-	(29)	(40)	-	(10)	(10)
	Import	(14)	8	22	-	4	7
	Net exposure	(36)	65	33	-	61	65

Strenghthening of the Rand

A 5% strengthening of the Rand against the above currencies at 31 March would have increased/(decreased) profit and loss by the above-mentioned amounts.

A 5% weakening of the Rand against the above currencies at 31 March would have had an equal, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit and loss.

NOTES TO THE FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		2020			2019			2018		
		Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
		R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)									
33.4	CURRENCY RISK (CONTINUED)									
	Foreign currency derivatives									
	The fair value of foreign currency derivatives are disclosed in Note. The following foreign exchange contracts existed at 31 March:									
	GROUP									
	Revenue contracts									
	Euro (EUR)	4	61	73	5,440,047	-	5,440,047	15,011,978	225	218
	Sterling (GBP)	-	-	-	-	-	-	-	-	-
	British Pound Swiss Franc (CHF)	-	-	-	-	-	-	2,450,046	30	28
	US Dollar (USD)	-	-	-	9,713,448	-	-	58,578,490	752	674
		-	61	73	-	-	5,440,047	-	1,007	920
	Purchase contracts									
	EUR	-	-	-	-	-	-	9,783,591	147	147
	GBP	-	-	-	-	-	-	1,027,807	18	17
	CHF	-	-	-	-	-	-	91,378	-	-
	USD	-	-	-	-	-	-	22,088,741	264	264
		-	-	-	-	-	-	-	429	428
	COMPANY									
	Revenue contracts									
	EUR	-	-	-	-	-	-	11,097,253	177	173
	GBP	-	-	-	-	-	-	-	-	-
	CHF	-	-	-	-	-	-	2,450,046	30	28
	USD	-	-	-	-	-	-	39,503,414	520	448
		-	-	-	-	-	-		727	649
	Purchase contracts									
	EUR	-	-	-	-	-	-	8,756,809	131	132
	GBP				-	-	-	1,027,807	18	17
	CHF	-	-	-	-	-	-	91,378	-	-
	USD	-	-	-	-	-	-	21,968,653	262	262
		-	-	-	-	-	-	-	411	411

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		2020				2019				2018			
		One year	Two years	Three to five years	Year total	One year	Two years	Three to five years	Years total	One year	Two years	Three to five years	Years total
		Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)												
33.3	CURRENCY RISK (CONTINUED)												
	GROUP												
	Foreign currency derivatives												
	Revenue contracts												
	EUR	5			5	2,132,266	-	-	2,132,266	15,011,978	-	-	15,011,978
	GBP	5			5	21,251	-	-	21,251	21,251	-	-	21,251
	CHF	-			-	151,290	-	-	151,290	2,450,046	-	-	2,450,046
	USD	10			10	56,535,296	979,355	-	57,514,651	58,578,490	-	-	58,578,490
	Purchase contracts												
	EUR	-			-	4,507,499	-	-	4,507,499	9,783,591	-	-	9,783,591
	GBP	-			-	284,089	-	-	284,089	1,027,807	-	-	1,027,807
	CHF	-			-	41,778	-	-	41,778	91,378	-	-	91,378
	USD	14			-	332,967	-	-	332,967	22,088,741	-	-	22,088,741
	COMPANY												
	Revenue contracts												
	EUR	-			-	921,907	-	-	921,907	11,907,253	-	-	11,907,253
	GBP	-			-	-	-	-	-	-	-	-	-
	CHF	-			-	151,290	-	-	151,290	2,450,046	-	-	2,450,046
	USD	-			-	29,549,972	-	-	29,549,972	39,503,414	-	-	39,503,414
	Purchase contracts												
	EUR	-			-	3,722,203	-	-	3,722,203	8,756,809	-	-	8,756,809
	GBP	-			-	284,089	-	-	284,089	1,027,807	-	-	1,027,807
	CHF	-			-	41,778	-	-	41,778	91,378	-	-	91,378
	USD	-			-	-	-	-	-	21,968,653	-	-	21,968,653

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		FOREIGN CURRENCY NOTIONAL AMOUNT (M)								
		2020			2019			2018		
		Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
33	FINANCIAL RISK MANAGEMENT (CONTINUED)									
33.3	CURRENCY RISK (CONTINUED)									
	GROUP									
	FOREIGN CURRENCIES									
	Export transactions									
	EUR	1	10	10	-	-	-	-	-	-
	GBP	5	98	112	-	-	-	-	-	-
	CHF	-	-	-	-	-	-	-	-	-
	USD	24	167	185	-	-	-	-	-	-
		-	275	307	-	-	-	-	-	-
	Firm commitments relating to foreign exchange contracts									
	EUR	-	-	-	-	-	-	-	-	-
	GBP	-	-	-	-	-	-	-	-	-
	CHF	-	-	-	-	-	-	-	-	-
	USD)	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
	Firm commitments relating to foreign exchange contracts									
	Import transactions									
	EUR	4	-	-	-	-	-	-	-	-
	GBP	-	-	-	-	-	-	-	-	-
	CHF	-	-	-	-	-	-	-	-	-
	USD	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

		FOREIGN CURRENCY NOTIONAL AMOUNT (M)								
		2020			2019			2018		
	Notes	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
COMPANY										
Export transactions										
EUR		-	-	-	-	-	-	-	-	-
GBP		-	-	-	-	-	-	-	-	-
CHF		-	-	-	-	-	-	-	-	-
USD		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Firm commitments relating to foreign exchange contracts										
EUR		-	-	-	-	-	-	-	-	-
EUR		-	-	-	-	-	-	-	-	-
GBP		-	-	-	-	-	-	-	-	-
CHF		-	-	-	-	-	-	-	-	-
USD		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-

Firm commitments relating to foreign exchange options

Export transactions

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

Import transactions

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

Commodity risk

1. 2016/17: Export contracts: €381 014 matures within one year
2. 2016/17: Export contracts: £27 800 matures within one year

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
33	FINANCIAL RISK MANAGEMENT (CONTINUED)					
33.5	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
	The categorisation of each class of financial asset and liability, including their fair values, are included below:					
	GROUP					
	2020					
	Financial assets					
	Cash and cash equivalents	1,194	-	-	1,194	1,194
	Financial assets					
	Loans and receivables	-	550	178	728	728
	Other financial assets	-	-	57	57	57
	Trade and other receivables	1,461	817		2,278	2,278
		2,655	1,367	235	4,257	4,257
	Financial liabilities					
	Associated companies: loans	-	-	-	-	-
	Other financial liabilities	-	(143)	-	(143)	(143)
	Preference dividends	-	-	-	-	
		-	(143)	-	(143)	(143)
	Net financial assets/(liabilities)	2,655	1,224	235	4,114	4,114
	2019					
	Financial assets					
	Cash and cash equivalents	33	-	-	33	575
	Financial assets					
	Loans and receivables	-	341	-	341	-
	Other financial assets	-	-	-	-	113
	Trade and other receivables	(341)	-	-	(341)	833
		(308)	341	-	33	1,522
	Financial liabilities					
	Associated companies: loans	-	(3,495)	-	(3,495)	(3,495)
	Other financial liabilities	-	-	-	-	(41)
	Preference dividends	-	(6)	-	(6)	(6)
		-	(3,501)	-	(3,501)	(3,541)

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
Net financial assets/(liabilities)	(308)	(3,159)	-	(3,467)	(2,020)
2018					
Financial assets					
Cash and cash equivalents	1,287	-	-	1,287	1,269
Financial assets					
Loans and receivables	-	-	-	-	-
Other financial assets	-	-	193	193	193
Trade and other receivables	1,145	-	-	1,145	1,353
	2,432	-	193	2,625	2,815
Financial liabilities					
Associated companies: loans	-	(3,342)	-	(3,342)	(3,342)
Other financial liabilities	-	(135)	-	(135)	(135)
Preference dividends	-	(6)	-	(6)	(6)
	-	(3,483)	-	(3,483)	(3,483)
Net financial assets/(liabilities)	2,432	(3,483)	193	(857)	(668)

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
		R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)					
33.5	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
	The categorisation of each class of financial asset and liability, including their fair values, are included below:					
	COMPANY					
	2020					
	Financial assets					
	Cash and cash equivalents	1,117	-	-	1,117	1,117
	Financial assets					
	Loans and receivables	-	(1)	-	(1)	(1)
	Other financial assets	-	-	189	189	189
	Trade and other receivables	1,477	-	-	1,477	1,477
		2,594	(1)	189	2,782	2,782
	Financial liabilities					
	Associated companies: Loans	-	-	-	-	-
	Other financial liabilities	-	(97)	-	(97)	(97)
	Preference dividends	-	-	-	-	
		-	(97)	-	(97)	(97)
	Net financial assets/(liabilities)	2,594	(98)	189	2,686	2,686
	2019					
	Financial assets					
	Cash and cash equivalents	6	-	-	6	460
	Financial assets					
	Loans and receivables	-	(1,339)	-	(1,339)	(1,339)
	Other financial assets	-	-	-	-	113
	Trade and other receivables	(301)	-	-	(301)	(301)
		(295)	(1,339)	-	(1,634)	(1,066)
	Financial liabilities					
	Associated companies: loans	-	(3,428)	-	(3,428)	(3,428)
	Other financial liabilities	-	-	-	-	(34)
	Preference dividends	-	-	-	-	-
		-	(3,428)	-	(3,428)	(3,462)
	Net financial assets/(liabilities)	(295)	(4,767)	-	(5,062)	(4,529)

NOTES TO THE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
		R'm	R'm	R'm	R'm	R'm
2018						
Financial assets						
Cash and cash equivalents		1,079	-	-	1,079	1,079
Financial assets						
Loans and receivables		-	-	-	-	-
Other financial assets		-	-	185	185	185
Trade and other receivables		984			984	1,148
		2,063	-	185	2,248	2,412
Financial liabilities						
Associated companies: loans		-	(3,168)	-	(3,168)	(3,168)
Other financial liabilities		-	(135)	-	(135)	(135)
Preference dividends		-	-	-	-	-
		-	(3,303)	-	(3,303)	(3,303)
Net financial assets/(liabilities)		2,063	(3,303)	185	(1,055)	(891)

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Determination of fair values

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Various valuation techniques and assumptions are utilised for the purpose of calculating fair value. The group does not hold any financial instruments traded in an active market, except for the investment in listed equity instruments. Fair value is determined using valuation techniques as outlined below. Where possible, inputs are based on quoted prices and other market-determined variables. The calculation of fair value requires various inputs into the valuation methodologies used.

The source of the inputs used affects the reliability and accuracy of the valuations. Significant inputs have been classified into the hierarchical levels in line with IFRS 13, as shown below.

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

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

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

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in Note 19. During the year, there were no transfers between any of the levels of fair value measurements. Transfers between levels are considered to have occurred at the date of the event or change in circumstances.

Financial instrument	Valuation method	Significant inputs	Fair value hierarchy of inputs
Investment properties			Level 3
Derivative financial assets	Refer to Note 1.4.4.	Refer to Note 1.4.6.	Level 3
Financial assets Non-current assets held for sale Cash and cash equivalents Trade and other receivables. Financial liabilities Derivative financial liabilities.	Market comparison technique: The fair value of foreign currency contracts is market-to-market by comparing the contracted forward rate to the present value of the current forward rate of an equivalent contract with the same maturity date.	Forward exchange contracted rates, market foreign exchange rates, forward contract rates, market commodity prices.	Level 2
Loans and borrowings	Refer to Note 1.4.18.	Refer to Note 1.4.18.	Level 3
Trade and other payables	Refer to Note 1.4.4. **	Refer to Note 1.4.4. **	Level 2
Trade and other receivables	Refer to Note 1.4.4. *	Refer to Note 1.4.4. *	Level 2
Financial liabilities			
Derivative financial liabilities	Refer to derivative financial assets in this table.	Refer to derivative financial assets in this table.	Level 2
Loans and borrowings	Refer to Note 1.4.4.	Refer to Note 1.4.4.	Level 2
Trade and other payables	Refer to Note 1.4.4. *	Refer to Note 1.4.4. *	Level 2

All other financial assets' and liabilities' carrying amounts approximate fair value. The categorisation of each class of financial asset and liability, including their fair values, are included below:

** The fair value of these instruments approximates their carrying value, due to their short-term nature.*
*** The carrying value is considered to reflect its fair value.*

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
		R'm	R'm	R'm	R'm	R'm	R'm
33	FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.5	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)						
	GROUP						
	2020						
	Investment properties (refer note 9)	871	859	-	-	859	859
	Other financial assets (refer note 19)	190	188	-	-	188	188
	Assets measured at fair value						
	Cash and cash equivalents	1,194	425	-	425	-	425
	Assets not measured at fair value						
	Trade and other receivables (refer note 17)	1,461	507	-	507	-	507
		3,717	1,979	-	932	1,047	1,979
	Loans and receivables	(2,384)	(319)	(753)	(4)	-	(757)
	Other financial liabilities	(143)	(144)		(144)	-	(144)
	Liabilities measured at fair value						
	Loans and borrowings (refer note 23)	(3,472)	-	-	-	-	-
	Preference dividends paid	-	-	-	-	-	-
	Liabilities not measured at fair value						
	Trade and other payables (refer note 26)	(2,784)	(1,418)	-	(1,029)	-	(1,029)
		(8,783)	(1,881)	(753)	(1,177)	-	(1,930)
	Net value	(5,066)	98	(753)	(245)	1,047	49
	2019						
	Investment properties (refer note 9)	-	844	-	-	844	844
	Other financial assets	-	113	-	-	-	-
	Assets measured at fair value						
	Cash and cash equivalents	(1)	610	-	610	-	610
	Assets not measured at fair value						
	Trade and other receivables	(341)	788	-	788	-	788
		(343)	2,355	-	1,398	844	2,242
	Loans and receivables	19	(192)	-	-	(192)	(192)
	Other financial liabilities	(41)	(41)	-	-	(41)	(41)
	Liabilities measured at fair value						
	Loans and borrowings (refer note 23)	(3,303)	(3,303)	-	-	(3,303)	(3,303)
	Preference dividends paid	(6)	(6)	-	-	(6)	(6)
	Liabilities not measured at fair value						
	Trade and other payables	954	(1,817)	-	-	-	-
		(2,377)	(5,359)	-	-	(3,542)	(3,542)

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes		Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
		R'm	R'm	R'm	R'm	R'm	R'm
	Net value	(2,720)	(3,004)	-	1,398	(2,698)	(1,300)
	2018						
	Investment properties (refer note 9)	794	794	-	-	794	794
	Other financial assets	-	-	-	-	-	-
	Assets measured at fair value						
	Cash and cash equivalents	1,287	1,269	-	1,269	-	1,269
	Assets not measured at fair value						
	Trade and other receivables	1,250	1,250	-	1,250	-	1,250
		3,331	3,313	-	2,519	794	3,313
	Loans and receivables	(12)	(12)	-	-	(12)	(12)
	Other financial liabilities	(135)	(135)	-	-	(135)	(135)
	Liabilities measured at fair value						
	Loans and borrowings	(3,321)	(3,321)	-	-	(3,321)	(3,321)
	Preference dividends paid	(6)	(6)	-	-	(6)	(6)
	Liabilities not measured at fair value						
	Trade and other payables	(2,720)	-	-	-	-	-
		(6,194)	(3,474)	-	-	(3,474)	(3,474)
	Net value	(2,863)	(161)	-	2,519	(2,680)	(161)

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

34 PENSION AND OTHER POST-RETIREMENT OBLIGATIONS

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base to maintain stakeholder confidence and to sustain future development of the business. The group considers its capital to comprise of total equity. The group may adjust its capital structure by way of issuing new shares and is dependent on its Shareholder for additional capital, as required. The group manages its capital structure in light of changes in economic conditions and the Board of Directors monitors the capital adequacy, solvency and liquidity of the group on a continuous basis. Refer directors' report on page 101 for more information.

During the year under review, the group posted a loss of R1.96 bn as a result of liquidity constraints and a decline in operational activity. This has eroded the equity of the group to an insolvensy position. The group has applied to the shareholder for a capital injection in order to review its cost structure in line with the anticipated future revenue growth. The group is in progress of implementing its turnaround strategy, which will improve the cost structure, project execution and liquidity constraints. On this date, Denel, still awaits the Shareholder to respond to Denel's application for recapitilsation.

There were no changes in the group's approach to capital management during the year.

34.1 POST-RETIREMENT OBLIGATIONS

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

34.2 DENEL MEDICAL BENEFIT TRUST (DMBT)

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made into a separate trustee-administrated fund. Denel does not make annual contributions as the trust is fully funded. However, R28 m (2018/19: R23 m) was contributed during the year under review to reimburse the trust for the impact of early retirements.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2020 indicated that the trust is over-funded. The DMBT's expected long-term investment return was based on the yields of the 9.9 year yield from the South African zero coupon government bond as at 31 December 2019 and a real discount rate of 3.76%. While there are currently no unrecognised actuarial losses and past services cost, however, there are contribution holidays due to the group. This is based on the fact that the group has not had to make any payments against its obligation as the trust is fully funded. Therefore, plan assets are recognised due to statutory requirements.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise and is exploring the possibility of limiting its exposure through a voluntary settlement process. For further detail, refer to the directors' report on page 101 to 105.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		2020 R'm	2019 R'm	2018 R'm
34	POST-RETIREMENT OBLIGATIONS (CONTINUED)			
34.2	DENEL MEDICAL BENEFIT TRUST (CONTINUED)			
	Change in defined benefit funded obligation			
	Present value of funded obligations at 1 April	388	409	503
	Service cost benefits earned during the year	1	1	1
	Interest cost on projected benefit obligation	34	35	46
	Actuarial losses/(gains)	(21)	(34)	(24)
	Remeasurement	-	-	(26)
	Benefits paid	(28)	(23)	(91)
	Present value of funded obligations at 31 March	374	388	409
	Change in plan assets			
	Fair value of plan assets at 1 April	1,394	1,326	1,360
	Expected return on plan assets	131	121	128
	Remeasurement	(12)	(30)	(40)
	Benefits paid	(28)	(23)	(26)
	Member voluntary payout exits from scheme		-	(96)
	Fair value of plan assets at 31 March	1,485	1,394	1,326
	Fund excess	1,111	1,005	917
	Excess not recognised	(1,110)	(1,003)	(914)
	Unrecognised actuarial gains	1	2	3
	Net benefit expenses			
	Service cost	1	1	1
	Interest cost	34	35	46
	Expected return on plan assets	131	121	128
	Net actuarial loss recognised during the year	(105)	(105)	(24)
	Income	61	52	151
		%	%	%
	The principal actuarial assumptions used for accounting purposes were:			
	Expected return on plan assets	9.6	9.6	8.9
	Future salary increase	-	-	-
	Future pension increase	-	-	-
	Discount rate	-	-	-
	Inflation rate	-	-	-
	Expected medical inflation	7.1	7.6	7.7
		Number	Number	Number
	The beneficiary members from the funds are as follows:			
	Active members	43	54	63

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes	2020 R'm	2019 R'm	2018 R'm
Retired members	626	637	658

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	2020		2019		2018	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Notes	%	%	%	%	%	%
34.2 POST-RETIREMENT OBLIGATIONS (CONTINUED)						
DENEL MEDICAL BENEFIT TRUST						
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	9	8	10	8	11	9

	2020	2019	2018	2017	2016	2015	2014
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Amounts for the current and previous four years are as follows:	-	-	-	-	-	-	-
Defined benefit obligation	(374)	(388)	(409)	(503)	(481)	(611)	(755)
Plan assets	1,486	1 394	1,326	1,360	1,288	1 328	1,057
Surplus	1,111	1 005	917	857	(807)	717	302
Experience adjustments on plan liabilities	(9)	(3)	-	15	5	(35)	(25)

	Healthcare cost inflation		Change in past service contractual liability		Change in service funding level		Change in service cost plus interest cost
	%		%		%		%
Discount rate							
Variation	-	-	-	-	-	-	-
+1 %	8.6	-	8.70%	-	-31.8	-	9
-1%	6.6	-	7.70%	-	32.9	-	(8)
Retirement age							
Variation	-	-	-	-	-	-	-
65	-	-	3.80%	-	-14.5	-	4
55	-	-	7.60%	-	-28.2	-	8

34.3 DENEL RETIREMENT FUND

The group has established a retirement fund scheme that covers all qualifying employees. This fund is a defined contribution plan and is governed by the Pension Funds Act of 1956 (Act No. 24 of 1956). The contributions are charged to the Income Statement as incurred.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
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Notes		2020				2019				2018			
		Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding
		R'm	R'm	R'm	%	R'm	R'm	R'm	%	R'm	R'm	R'm	%
35	SUBSIDIARIES AND ASSOCIATED COMPANIES												
	The following unlisted companies are subsidiaries of Denel SOC Ltd and its subsidiaries:												
	Denel Aerostructures SOC Ltd	1,689	1,689	281	100	1,689	1,689	354	100	1,689	1,689	251	100
	Densecure SOC Ltd	8	8	(24)	100	8	8	(24)	100	8	8	(22)	100
	LMT Holdings SOC Ltd (RF) [2]	27	16	334	51	27	16	318	51	27	16	314	51
	Denel Vehicle Systems (Pty) Ltd	25	828	-	100	25	828	(247)	100	25	828	(342)	100
	Turbomeca (Africa) Pty) Ltd	-	94	-	100	-	94	-	100	-	94	-	100
	Aggregated amounts less than R0.5 m	-	-	-	-	-	-	-	100	-	-	-	100
	Total investment	-	2,635	591	-	-	2,635	401	-	-	2,635	201	-
	Less: Accumulated impairment	-	(2,268)	(951)	-	-	(2,268)	(654)	-	-	(1,055)	(650)	-
	Net investment of Denel SOC Ltd	-	367	(360)	-	-	367	(253)	-	-	1,580	(449)	-

1. *Amounts smaller than R0.5 m due to rounding are not reflected against the entities, but in aggregate on this page.*
2. *This includes R16 m (2017/18: R16 m, 2016/17: R16 m) preference shares.*
3. *The investment made in Denel Asia LLC, was less than R0.5 m (refer to Note 11). Denel Asia LLC is the only subsidiary in which Denel SOC Ltd's investment is less than R0.5 m.*
4. *The country of incorporation of subsidiaries are not different from Denel, except for Denel Asia Co Ltd which is a Hong Kong based Company. The country of incorporation of associated companies are not different from Denel, except for Tawazun Dynamics LLC and Pioneer Land Systems LLC which are both UAE based companies. All associated companies are strategic to the business activities of Denel. Non-controlling interest voting rights are not different from % shareholding. The only subsidiary with non-controlling interests is LMT Holdings.*
5. *Shares are not held by the group but effective management control is exercised in these entities. LMT Products went into business rescue proceedings in August 2019, however, Denel SOC retains effective holding on LMT holdings.*
6. *70% shareholding by Airbus DS Optronics GmbH was sold to Hensoldt Optronics (Pty) Ltd on 28 February 2017. This has not altered the shareholding of Denel. Airbus DS Optronics (Pty) Ltd's name was subsequently changed (after 31 March 2017) to Hensoldt Optronics (Pty) Ltd.*

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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	2020				2019				2018			
	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/by Denel SOC Ltd	Effective percentage shareholding
Notes	R'm	R'm	R'm	%	R'm	R'm	R'm	%	R'm	R'm	R'm	%
Subsidiary shareholding by LMT Holdings SOC Ltd (RF), a subsidiary of Denel SOC Ltd												
LMT Products SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
LMT Engineering SOC Ltd	-	-	-	51	-	7	-	51	-	7	-	51
LMT Properties SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
Net investment of LMT Holdings SOC Ltd (RF)	-	-	-	-	-	-	-	-	-	7	-	-
The following unlisted companies are associated companies of Denel SOC Ltd and its subsidiaries:												
Pioneer Land Systems LLC	-	-	-	49	-	-	-	49	-	-	-	49
Hensoldt Optronics (Pty) Ltd	-	-	-	-	-	-	-	-	190	57	-	-
Rheinmetal Denel Munition (Pty) Ltd	-	-	-	-	-	-	-	-	757	371	-	-
Tawazun Dynamics LLC	-	-	-	-	-	-	-	-	47	23	-	-
Net investment of Denel SOC Ltd	-	-	-	-	-	-	-	-	-	451	-	-

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		GROUP			COMPANY		
		2020	2019	2018	2020	2019	2018
Notes		R'm	R'm	R'm	R'm	R'm	R'm
36	FRUITLESS AND WASTERFUL EXPENDITURE						
	Opening balance prior period error	136	-	-	133	-	-
	As restated	-	-	-	-	-	-
	Fruitless and wasteful expenditure - relating to prior year	4	3	-	4	4	-
	Fruitless and wasteful	29	-	-	26	-	-
	expenditure - relating to current year	-	139	-	-	135	-
	Less: Amount resolved	-	(6)	-	-	(6)	-
	Less: Amounts transferred to receivables for recovery	-	-	-	-	-	-
	Fruitless and wasteful expenditure awaiting resolution	169	136	-	163	133	-
	Analysis of current year's fruitless and wasteful expenditure						
	Incident						
	Interest and penalties charged	26	57	-	24	53	-
	Penalties on late deliveries and late payments	3	79	-	3	79	-
	Regulatory and statutory compliance	3	-	-	3	-	-
	Other*	-	-	-	-	-	-
	Fruitless and wasteful expenditure awaiting resolution	33	136	-	30	132	-

* Other refers to items other than interest or penalties, such as storage costs, late payment fees.

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Notes		GROUP			COMPANY		
		2020	2019	2018	2020	2019	2018
		R'm	R'm	R'm	R'm	R'm	R'm
36	IRREGULAR EXPENDITURE						
	Opening balance at 1 April	2,901	2,553	1,540	1,554	1,339	760
	Add: Irregular expenditure incurred in prior year						
	Deviations from the procurement process not adequately approved	-	-	-	-	-	-
	Tax clearance certificates not obtained	-	-	-	-	-	-
	Add: Irregular expenditure incurred in the current year	174	321	910	39	187	579
	Suppliers not registered on the Central Supplier Database	-	4	1	-	4	-0
	Bids not adequatelly approved	-	22	1	-	-	1
	Contract extension not adequatelly approved	10	35	27	10	35	23
	Deviations from the procurement process not adequatelly approved	17	6	16	11	5	8
	Evaluation criteria not adequatelly specified or applied	-	3	42	-	3	42
	Inadequate deviation process followed	-	-	-	-	-	-
	Insufficient quotes acquired	-	7	1	-	1	1
	Limitation of scope - Information not available	-	84	213	-	59	157
	Local content and designated products not catered for	3	19	-	3	19	-
	No competitive bid process	14	44	83	9	35	66
	Procurement done without following a prescribed/compliant legislation	-	5	-	-	19	-
	Procurement done without following a prescribed/compliant process	2	1	57	2	1	53
	Quotations process not initiated from National Treasury's Central Supplier Database	-	-	-	-	-	-
	R500 k or R1 m open tender threshold not adhered to	-	20	159	-	1	46
	SBD 4 – Declaration of interests needs to be confirmed for transactions above R1 m per financial year	-	-	-	-	-	-
	Sole supplier approval not obtained from relavent authority	9	43	127	-	20	71
	Tax clearance certificates on foreign as well as local suppliers	-	-	139	-	-	139
	Supplier with the highest points not selected	-	-	-	-	-	-
	Contract exceeding 15% threshold without approval	111	22	39	2	(18)	(1)
	Contracts not signed	2	1	1	2	1	1
	Suppliers in the service of the state	-	-	-	-	-	-
	Appointment of Technical Advisors	6	5	3	-	2	(29)
	Add: Irregular expenditure identified by the external auditors	119	27	111.0	109	27.0	-
	Minimum of three quotations for RFQs above R30 K not obtained	-	2.2	-	-	2	-
	The Appointment of the Bid Evaluation Committee and Adjudication Committee	-	0.3	-	-	-	-
	Contract extension not adequatelly approved	-	1.1	-	-	1	-
	Identified by Auditor-General	119	23	111.0	109	23	-
	Less: Amounts condoned	-	-	-	-	-	-
	Less: Amounts recoverable (not condoned)	-	-	-	-	-	-
	Less: Amounts not recoverable (not condoned)	-	-	-	-	-	-
	Irregular expenditure as at 31 March	3,194	2,901	2,553	1,702	1,554	1,339

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

36 IRREGULAR, FRUITLESS AND WASTEFULL EXPENDITURE (CONTINUED)

Irregular, fruitless and wasteful expenditure

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure, as well as material losses due to criminal conduct, be disclosed in the annual financial statements. Previously, Denel did not disclose irregular, fruitless and wasteful expenditure on its financial statements as it was below the significance and materiality framework agreed with the Shareholder.

It is important to the contravention of any law and regulation that when the expenditure was incurred results in the non-compliance reported as irregular expenditure. This does not imply that the expenditure was not authorised, that it was fruitless and wasteful expenditure or that the group did not attain value from the transaction.

Consequence management

In some instances, management has taken disciplinary action against employees involved in transactions leading to fruitless, wasteful and irregular expenditure. Denel is also pursuing litigation through criminal and civil action where appropriate, and continuing investigations on other cases.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure incurred during the year is largely driven by penalties due to late deliveries on contracts, as well as interest and penalties incurred due to the late payment of suppliers. In both these instances, no one could be held liable for the losses incurred as a result of fruitless and wasteful expenditure. Denel will therefore not recover the loss nor discipline any employee in this regard.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

37 CORRECTION OF PRIOR-PERIOD ERRORS

This note explains the impact of the prior-period errors on the group's financial statements.

Revenue recognition

The group did not correctly apply the principles of IFRS 15: *Revenue from* contracts with customers when recognising revenue. The group did not appropriately account for the significant financing component on the relevant contracts, variable consideration and did not identify performance obligations and cost to fulfil the contracts as required by IFRS 15. The errors have been corrected retrospectively by restating the comparative amounts presented in these financial statements.

In 2018/19, Denel received a disclaimer audit opinion with respect to opening balances and the application of the standard in recognising revenue. Management has reviewed all contracts to ensure application to the correct standard (IAS 11 and IAS 18). The errors have been corrected retrospectively by restating the comparative amounts presented in these financial statements.

Property, plant and equipment

During the previous audit of 2017/18, management did not adequately perform an exercise to review useful lives and residual values of assets of property, plant and equipment. The error has been retrospectively corrected by the affected divisions by performing an exercise of reviewing useful lives and residual values of assets.

Expected credit losses

Denel SOC Limited and its subsidiaries applied IFRS 9: *Financial instruments* for the first time in 2018/19. The assessment of significant increases in credit risk, including time value of money, effects and the expected credit losses model, was not applied to contract assets. The error has been corrected by restating prior-year amounts by reperfoming calcuations inclusive of contract assets, as well as intra-group accounts receivables.

Denel Medical Benefit Trust

Denel SOC Limited did not correctly account for the service cost and net interest on the net defined benefit asset and for the net actuarial loss recognised during the year in the Statement of Profit or Loss and Other Comprehensive Income in terms of IAS 19: *Employee benefits,* resulting in the net benefit in the consolidated financial statements being overstated.

Hensoldt reclassification

Denel SOC Limited did not recognise the probable sale of an associate (Hensoldt Optronics (Pty) Ltd) as a non-current asset held for sale in the consolidated and separate financial statements, even though the sale meets the requirements of IFRS 5: *Non-current assets held for sale and discontinued operations* for the associate to be classified as held for sale. This was raised as an error and it has been corrected by reclassyfing the investment in Hensoldt as an asset held for sale.

Investment in Turbomeca (Pty) Ltd

On 1 September 2017, the effective date of the transaction, Denel SOC Ltd obtained an additional 51% of the ordinary shares, which gave it 100% ownership, and thus control over Turbomeca Africa (Pty) Ltd. At acquisition date, the transaction did not take into account the fair values of assets and liabilites, in particular property, plant and equipment, as required by IFRS 3. Subsequently, in correcting the error, fair values were obtained as at 31 March 2020.

Impairment of investment in Denel Vehicle Systems

In 2018/19, an impairment test on the goodwill remaining from the acquisition of Denel Vehicle Sytems (Pty) Ltd was performed. Upon review of the projected cashflows, management reviewed the assumptions on the probabilities on some of the transaction included. This has resulted in the correction of error.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes	As reported R'm	Revenue recognition R'm	Expected credit losses R'm	DMBT R'm	Property plant and equipment R'm	Other R'm	Total R'm
37 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)							
GROUP							
2019							
Statement of profit and losses							
Revenue	3,764	(455)	-	-	-	-	3,309
Cost of sales	(4,378)	-	-	-	-	432	(3,946)
Other income	92	-	-	-	-	188	280
Operating expenditure	(1,364)	-	(7)	-	(141)	(120)	(1,631)
Finance costs	(374)	-	-	-	-	(132)	(506)
Finance income	34	-	-	-	-	-	34
Share of profit in associated companies	425	-	-	-	-	-	425
Taxation expense	52	-	-	-	-	-	52
Increase/(decrease) in net profits	(1,749)	(455)	(7)	-	(141)	368	(1,983)
Statement of financial position							
Property, plant and equipment	906	-	-	-	459	-	1,365
Intangible asset	80	-	-	-	-	-	80
Deferred tax asset	74	-	-	-	-	13	87
Inventory	2,587	(48)	-	-	-	-	2,539
Trade and other receivables	832	-	(67)	-	-	-	765
Contract assets	734	165	-	-	-	-	899
Current prepayments made	365	(14)	-	-	-	-	351
Income tax receivables	7	-	-	-	-	9	16
Cash and cash equivalents	-	-	-	-	-	1	-
Investments in subsidiaries	-	-	-	-	-	11	-
Non-distributable reserves	33	-	-	-	-	0	33
Non-current provisions	600	-	-	-	-	(18)	582
Trade and other payables	1,817	-	-	-	-	(338)	1,479
Contract liabilities	726	30	-	-	-	-	756
Prepayments received	2,153	55	-	-	-	-	2,208
Current provisions	292	-	-	-	-	(366)	(74)
Income tax payables	9	-	-	-	-	-	9
Increase/(decrease) in retained earnings	11,215	188	(67)	-	459	(688)	11,095

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	As reported	Revenue recognition	Expected credit losses	DMBT	Property plant and equipment	Other	Total
		R'm	R'm	R'm	R'm	R'm	R'm	R'm
2018								
Statement of profit and losses								
Revenue		5,848	(22)	-	-	-	-	5,826
Cost of sales		(5,410)	(22)	-	-	-	-	(5,432)
Other income		314	-	-	-	-	(18)	296
Operating expenditure		(1,717)	-	-	-	-	(33)	(1,750)
Finance costs		(376)	-	-	-	-	31	(345)
Finance income		70	-	-	-	-	1	71
Share of profit in associated companies		226	-	-	-	-	-	226
Taxation expense		(8)	-	-	-	-	(2)	(10)
Increase/(decrease) in net profits		(1,053)	(44)	-	-	-	(21)	(1,118)
Statement of financial position								
Property, plant and equipment		1,079	-	-	-	19	-	1,098
Intangible asset		-	-	-	-	-	3	-
Deferred tax asset		22	-	-	-	(3)	-	19
Inventory		3,183	(52)	-	-	-	-	3,131
Trade and other receivables		1,353	-	(152)	-	-	-	1,201
Contract assets		1,733	55	-	-	-	-	1,788
Current prepayments made		371	-	-	-	-	-	371
Income tax receivables		8	-	-	-	-	9	17
Cash and cash equivalents		-	-	-	-	-	18	-
Investments in subsidiaries		-	-	-	-	-	11	-
Non-distributable reserves		-	-	-	-	-	-	-
Non-current provisions		337	-	-	-	-	(113)	224
Trade and other payables		2,480	-	-	-	-	(4)	2,476
Contract liabilities		358	235	-	-	-	-	593
Prepayments received		2,047	42	-	-	-	-	2,089
Current provisions		234	-	-	-	-	(1)	233
Income tax payables		4	-	-	-	-	-	4
Increase/(decrease) in retained earnings		13,209	280	(152)	-	16	(77)	13,244

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

38 CHANGE IN ACCOUNTING POLICIES

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard (as applicable):

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2018 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

	2020	2019
Amounts recognised in the profit and loss	R'm	R'm
Interest on lease liabilities	1	1
Expenses relating to short-term leases	0	0
Depreciation	3	3

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

39 POST-BALANCE SHEET SUBSEQUENT EVENTS

The annual financial statements have not been adjusted for the transactions below, but have been been disclosed as they are perceived to be material to the user.

COVID-19 implications

At year end, divisions and subsidiaries assessed significant accounts that will likely be impacted on by the pandemic.

(i) Peformance obligations were assessed as result of the COVID-19 pandemic and penalties due to delays were provided for as at year end. In some instances, negotiations with suppliers took place; a decision whether or not penalties will be imposed was not finalised and the impact could not be quantified.

(ii) The Expected Credit Losses (ECL) model was performed for year-end before the pandemic took effect. The collectibility of accounts due to Denel was assessed during the lockdown and arrangements were made with the debtors. Due to changes in the lockdown regulations with a view to open the economy, could not quantify any further impairments that need to be perfomed on the accounts receivables balance.

(iii) Residual values and impairment of assets were considered and performed at year end. However, frequent changes in interest rates and the market for assets, as a result of changes in lockdown regulations, made it impractical to reperform those calcuations with constant changes in interest rates and fair values of assets.

All other impact with regard to further COVID-19 implications, which affected Denel's fair value of assets, as well as financial perfomance, and subsequent knock-on effect in cash, has been detailed in the going-concern note.

Densecure

A decision was made during the prior year to transfer the company's short term-liabilities, rights and associated assets to a contingent policy with Centriq Insurance Company Limited, in accordance with the Insurance Act, 2017. The resolution to transfer was accepted by the board of directors of Centriq Insurance Company Limited on 25 February 2019. The company ceased writing new insurance business as of 1 April 2019. All policyholder liabilities transferred to Centriq shall absolve Densecure SOC limited of any future obligations.

The Prudential Authority approved the transfer of the insurance business on 31 July 2020. The effective date of transfer is 01 April 2019, however during the current financial year Densecure still had insurance obligations to policyholders with respect to outstanding claims liabilities. Further to this, on 24 August 2020 the board resolved to close the business and will seek shareholder approval once the transfer has been successfully completed.

Funding

On 25 August 2020, Fitch Ratings downgraded Denel (SOC) Limited's national long-term rating to 'CC(zaf)' from 'B(zaf)' and the national short-term rating to 'C(zaf)' from 'B(zaf). The downgrade reflects Denel's severely strained liquidity position and the absence of timely government support.

During the month of September, Denel was able to roll a total of R2.503 bn of the notes with noteholders choosing not to roll totalling R182 m, which was repaid. The Shareholder advanced to Denel a total of R233 m for the repayment of the redemption (R183 m) and R50 m towards interest payments for the quarter ending 30 September 2020. This payment was made against the R576 m recapitilisation approved by Cabinet. On 9 November 2020, Denel received the balance of the recapitilisation (R271m) with the ability to utilise the funds for operations with the conditions to utilise only for debt reduction removed.

Governance

The Denel board submitted an application letter dated 12 June 2020 to the Shareholder requesting approval to dispose LMT Products (Pty) Ltd in terms of section 54(2)(c) of the PFMA. The letter included a notification to initiate governance and legal proceedings to liquidate LMT Holdings SOC Ltd and the remainder of its subsidiaries. On 02 October 2020, Denel received the approval from the shareholder.

The Group CEO, Danie du Toit, tendered his resignation with his last day being 15 August 2020. Subsequently, the Denel Board appointed Talib Sadik, the Chairperson of the Audit Committee, as interim Group CEO. The Audit Committee continues to be duly constituted as per the Companies Act.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

39 POST-BALANCE SHEET SUBSEQUENT EVENTS (CONTINUED)

Operations

Since April 2020, Denel has been unable to pay full salaries to its employees, pension fund contributions and other statutory payments. Whilst it has received an extension for some of the payments e.g. SARS, the non- payment of the Unemployment Insurance Fund and trade union subscriptions resulted in legal action being instituted against Denel by Organised Labour. Solidarity and UASA (Unions) have lodged a case against Denel to pay all the outstanding salaries for the month of May, June and July 2020 by 3 December 2020.

During the March 2019, Denel issued a letter instructing suppliers to cease work related to a particular contract. One of the suppliers argued that this directive was not in accordance with the contract and, therefore, continued to manufacture materials and subsequently filed a claim for the materials produced. It was agreed with the supplier that production will continue up until 31 December 2019 based on work in progress on hand. Subsequent to year end, the supplier issued an additional claim of EUR 9,925 725 .

The approval for the sale of Hensoldt interest was received from DPE on 02 October 2020. Engagements are ongoing with the Purchaser as the sale was conditional on the approval being received by 30th September 2020.

During the course of October 2020 Denel commenced a restructuring process within three (3) of its divisions, namely DLS, DVS and PMP. The requisite consultation process with Organized Labour (OL) in terms of section 189 of the Labour Relations Act 66 of 1995 is currently underway. At the time of issue of the annual financial statements, this process had not been concluded and is expected to be concluded by February 2021.

A client has recalled two performance guarantees to the value of USD 180 000 and USD 90 000 and these have been repaid on 19/08/2020 and 15/10/2020 respectively.

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2020

Notes

40 GOING CONCERN

The board made an assessment of the group's ability to continue as a going concern in the foreseeable future. The board:

- Approved the revised corporate plan FY21-FY25, management's radical action plans and the improvement of Denel's performance and solvency position during the next 24 months on 29th May 2020;
- Noted that Denel was removed from a negative watch rating to stable outlook by Fitch, whilst it is expected that the sovereign downgrade will negatively affect the coming Denel rating due to its dependence on Government and the sovereign risk that attaches to this, given the recent downgrading of the country to junk status. The board considered the impact this may have in accessing future funding;
- Reviewed the cash flow forecasts for the period of twelve months with adequate cash in the foreseeable future under the assumptions of receipt of the balance of the recapitalisation funds of R576m and generating own liquidity to be generated from turnaround strategic actions;
- Considered the commercial viability of the business including the major contracts included in the order book (R15bn) and pipeline (R26bn) and Denel's ability to execute on the orders;
- Noted the continued support of its Shareholder as a going concern when it received the R1.8bn recapitalisation albeit that this was R1bn short of the R2.8bn request. The board is encouraged by the Shareholder's decision to further support Denel with an initial approval of the allocation of R576m in the FY2020/2021 budget process for the current financial year – we had expected initially that we would receive R1bn in April 2020 as was indicated in the 2019/2020 financial statements. However, the allocation was approved for the R576m but subject to a number of conditions. This has been received and the conditions relating to the utilisation of these funds removed.
- Noted that Denel has cleared most of its backlog of overdue core creditors (R1,1bn at 31 August 2019), however notes that execution risk remains in the short term to deliver on projects due to the current liquidity position of the company. Management has considered this and put in place mitigating steps to minimise the risk; the business and the board will continue to monitor the payment of suppliers and the impact thereof;
- Considered the mitigating steps taken by Management through the implementation of the turnaround and will continue to monitor its progress as part of the conditions of the recapitalisation. The turnaround strategy includes the strengthening of corporate governance and improving liquidity through the sale of non-core assets and the introduction of Strategic Equity Partners. A COVID-19 impact on this will need to be assessed especially on the valuation of assets and the property portfolio where the rehabilitation provisions could affect fair value measurements and potential investors may want to preserve their cash reserves;
- Considered that there remains positive sentiment towards Denel and continued, expressed interest in Denel's products, capabilities and Intellectual Property;
- Considered the existing strategic relationship between the DoD and Denel. This has been demonstrated by the continued base load work received on critical capabilities, as well as specific engagements that are took place between Denel and the Chief of the Airforce and Chief of the Army during the lockdown period and which remain ongoing where specific actions are being put in place to support Denel through its crisis and help with repositioning the organisation to resume its lead position in the industry; and
- Noted the investor sentiments towards Denel regarding the bridging finance received during the year and the positive impact, albeit shortly lived when the progress made on strategic actions and the support received from the Shareholder was acknowledged when Denel was removed from a rating of Negative Watch to Stable Outlook in the latest Fitch Agency review. The recent downgrade from Fitch of RSA from BB+ to BB will affect Denel's next rating review as Denel's rating is largely based on the support it receives as a government owned organisation. On 25 August 2020, Fitch Rating Agency further downgraded Denel' National Long-Term Rating from, 'B(zaf) to 'CC(zaf) and its Short-Term Rating from 'B'(zaf) to 'C' (zaf) due to its severely strained liquidity position, delinking it from the sovereign and rating it on a standalone credit basis.

Based on the above factors, whilst there are material uncertainties regarding the going concern due to liquidity constraints, the directors are satisfied that given the mitigating steps taken by the board, Denel will continue operating as a going concern for the 12-month period to 31 March 2021.

Financial distress considerations

The board had full and serious consideration of the financial position of the company on a regular basis, in order to assess and determine whether the company was "financially distressed" or not within the meaning as defined in section 128(1)(f) of the Companies Act of 2008. The board continually keeps under review the financial position of the company, including financial projections, in order to assess whether or not the company is reasonably unlikely to meet its obligations over the following six-month period and has determined that the company was not financially distressed for the period ended 31 March 2020.'

INFORMATION SERVICE
PART 8

GRI CONTENT INDEX

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE / COMMENT	PAGE
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-makers of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	Group Chief Executive Officer's report	59
ORGANISATIONAL PROFILE			
G4-3	Report the name of the organisational	About this report	Inside cover
G4-4	Report the primary brands, products, and services	Who we are	10 - 11
G4-5	Report the location of the organisation's headquarters	Corporate contact details	256
G4-6	Report the number of countries in which the organisation operates, and the names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Organisational Structure	22
G4-7	Report the nature of ownership and legal form	Organisational structure	22
G4-9	Report the scale of the organisation (including total number of employees, operations, net sales)	Human capital, organisational Structure and financial performance	27, 22, 36
G4-10	Report the total number of employees by employment contract and gender and the total number of permanent employees by employment type and gender	Human capital Human capital statistics	27, 249
G4-11	Report the percentage of total employees covered by collective bargaining agreements	Human capital	27
G4-12	Describe the organisation's supply chain	Social capital	30
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including expansions	Group Chief Executive Officer's report	59
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	We do not currently apply the precautionary approach	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List all entities included in the organisation's consolidated financial statements	Organisational structure and Note 35 of the consolidated annual financial statements	22
G4-18	Explain the process for defining the report content and the aspect boundaries and how the organisation has implemented the reporting principles for defining report content	About this report	Inside cover
G4-20	For each material aspect, report the aspect boundary within the organisation	Material risks	50
G4-21	For each material aspect, report the aspect boundary outside the organisation	Material risks	50
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	Consolidated financial statements	124

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE / COMMENT	PAGE
G4-23	Report significant changes from previous reporting periods in the scope and aspect boundaries	Not applicable	
STAKEHOLDER ENGAGEMENTS			
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholder engagements	39
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	Stakeholder engagements	39
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	Stakeholder engagements	39
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	Stakeholder engagements	39
REPORT PROFILE			
G4-28	Reporting period for information provided	About this report	2
G4-29	Date of most recent previous report	31 March 2019	
G4-30	Reporting cycle	Annually	
G4-31	Provide the contact point for questions regarding the report or its contents	Corporate contact details	256
G4-32	Report the "in accordance" option the organisation has chosen, the GRI Content Index for the chosen option and the reference to the external assurance report, if the report has been externally assured	Not applicable. This report contains some GRI disclosure.	
G4-33	Report the organisation's policy and current practice with regard to seeking external assurance for the report, report the scope and basis of any external assurance provided, the relationship between the organisation and the assurance providers and whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report	About this report and Audit Committee Report	2, 109
GOVERNANCE			
G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision making on economic, environmental and social impacts	Governance framework	75
G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	Governance framework	75

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE / COMMENT	PAGE
G4-36	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether postholders report directly to the highest governance body	Governance framework	75
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	Governance framework	75
G4-38	Report the composition of the highest governance body and its committees, including executive and non-executive directors, independence, tenure, number of each individual's other significant positions and commitments, the nature of the commitments and gender	Governance framework	75
G4-39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement)	The Chair is a non-executive director. Denel Board of Directors	
G4-40	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members (including diversity, independence, expertise and experience relating to economic, environmental and social topics)	Governance framework	75
G4-41	Report processes for the highest governance body to ensure that conflicts of interest are avoided and managed and whether conflicts of interest are disclosed to stakeholders (including cross-board membership and related party disclosure)	Governance framework, Note 32 Related parties	75, 194
G4-42	Report the highest governance body's and senior executives' roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to economic, environmental and social impacts	Governance framework	75
G4-43	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	Governance framework	75
G4-44	Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics and whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment	Governance framework	75
G4-45	Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks and opportunities. Include the highest governance body's role in the implementation of due diligence processes	Governance framework	75

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE / COMMENT	PAGE
G4-46	Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Governance framework	75
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities	Material risks	48
G4-48	Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	Not applicable	
G4-49	Report the process for communicating critical concerns to the highest governance body.	Material risks	48
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	Material risks	48
G4-51	Report the remuneration policies for the highest governance body and senior executives (including performance pay, equity-based pay, bonuses, deferred or vested shares, sign-on bonuses, termination payments and clawbacks)	Remuneration report	97
G4-52	Report the process for determining remuneration	Remuneration report	97
ETHICS AND INTEGRITY			
G4-56	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Governance framework	75
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as help-lines or advice lines	Our vision, strategic drivers and values, governance framework	8, 56, 75
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	Our vision, strategic drivers and values, governance framework	8, 56, 75

ENVIROMENTAL STATISTICS

2019–2020 Energy and carbon emissions figures

ENERGY CONSUMPTION

Campus	Electricity (kwh)	Liquid petroleum gas (kg)	Coal (kg)	Heavy fuel oil (litres)	Aviation turbine fuel (litres)	Petrol (litres)	Diesel (litres)
Kempton Park	20 3367 96	36 977		26 300	16 5460	1 903	8 274
PMP	10 932 596	92 997	917 609			14 316	67 395
Irene	19 558 391				0	16 132	6 425
Lyttelton	6 180 865					24 385	27 267
DVS	4 824 258					12 702	26 420
OTR	4 972 617					45 329	135 205
Houwteq	1 574 637					7 879	1 583
Total	68 380 160	129 974	917 609	26 300	165 460	122 647	272 569

TONNES CO_2 EQUIVALENT EMISSIONS

Campus	Electricity	Liquid petroleum gas	Coal	Heavy fuel oil	Aviation turbine fuel	Petrol	Diesel
Kempton Park	19 320	108,6		84	421	4	22
PMP	10 386	273,1	2 262			33	181
Irene	18 580					37	17
Lyttelton	5 872					56	73
DVS	4 583					29	71
OTR	4 724					105	363
Houwteq	1 496					18	4
Total	64 961	382	2 262	84	421	284	732

	FUEL TYPE	QUANTITY		TONNES CO_2E
Scope 1 (Based on DEFRA 2019 CO_2e factors)	Liquid petroleum gas (kG)	129 974		382
	Coal (kg)	917 609		2 262
	Heavy fuel oil (litres)	26 300		84
	Aviation turbine fuel (litres)	165 460		421
	Petrol (litres)	122 647		284
	Diesel (litres)	272 569		732
	Total scope 1 CO_2e (tonnes)			4 164
Scope 2 ($C0_2e$ factor: Eskom)	Electricity (kWh)	68 380 160		64 961
	Total scope 2 CO_2e			64 961

HUMAN CAPITAL STATISTICS

WORKFORCE PROFILE 2019–20

OCCUPATIONAL LEVEL	MALE				FEMALE				TOTAL
	A	C	I	W	A	C	I	W	
Top Management	7	0	2	2	2	2	0	0	15
Senior Management	11	5	5	17	7	2	2	3	52
Professionally qualified and experienced speacialists and mid-management	95	24	39	414	49	10	9	45	685
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	485	84	31	486	210	39	11	111	1,457
Semi-skilled and discretionary decision making	438	52	0	29	213	47	5	81	865
Unskilled and defined decision making	38	5	0	1	13	6	0	0	63
Total	1,074	170	77	949	494	106	27	240	3,137
Temporary employees	95	5	1	1	90	2	1	0	196
Grand total	1,169	175	78	950	584	108	28	240	3,332
Total black	1.321				627				1,948
Total white	949				240				1,189

WORKFORCE PROFILE 2018–2019

OCCUPATIONAL LEVEL	MALE				FEMALE				TOTAL
	A	C	I	W	A	C	I	W	
Top Management	11	2	3	9	2	0	1	3	31
Senior Management	24	2	6	36	8	2	1	2	81
Professionally qualified and experienced specialists and mid-management	115	38	60	612	49	11	13	49	947
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	694	131	40	749	295	66	23	210	331
Semi-skilled and discretionary decision making	580	59	1	28	352	55	5	60	132
Unskilled and defined decision making	146	10	0	5	20	6	0	0	187
Grand total: Employees	1 595	246	110	1 442	728	141	43	324	4 629

A= African; C= Coloured; I= Indian; W= White

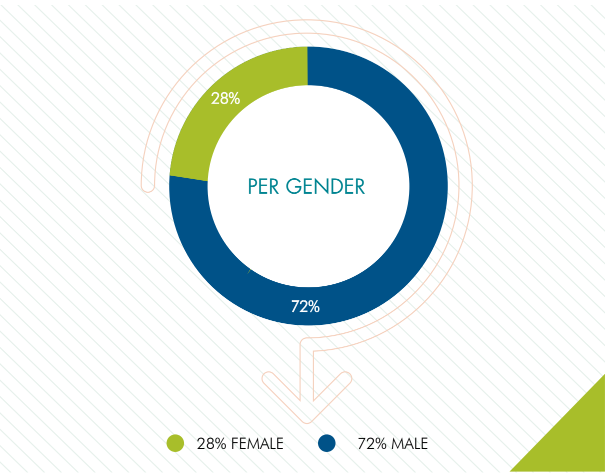
WORKFORCE PROFILE 2018–2019

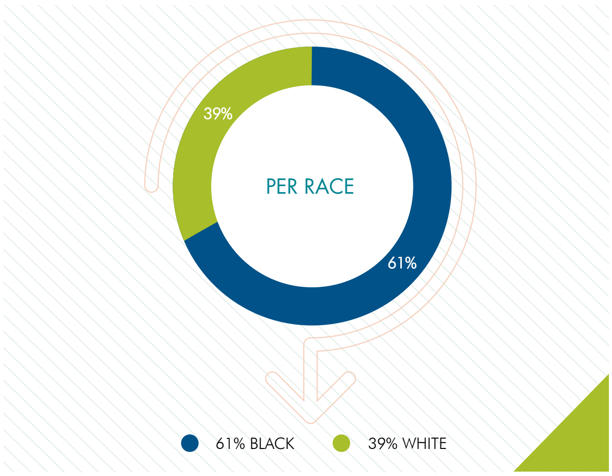
OCCUPATIONAL LEVEL	FEMALE				MALE				TOTAL
	A	C	I	W	A	C	I	W	
Top Management	1	0	0	1	9	1	3	10	25
Senior Management	8	2	1	2	20	2	5	29	69
Professionally qualified and experienced specialists and mid management	49	8	14	48	104	35	51	543	852
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	268	62	15	188	609	112	34	644	1,932
Semi-skilled and discretionary decision making	301	43	6	53	530	57	1	23	1013
Unskilled and defined decision making	18	4	0	0	51	2	0	1	72
Grand total	645	119	36	292	1,323	209	94	1,250	3,968
Total: Black		800				1,626			
Total: White				292				1,250	

A= African; C= Coloured; I= Indian; W= White

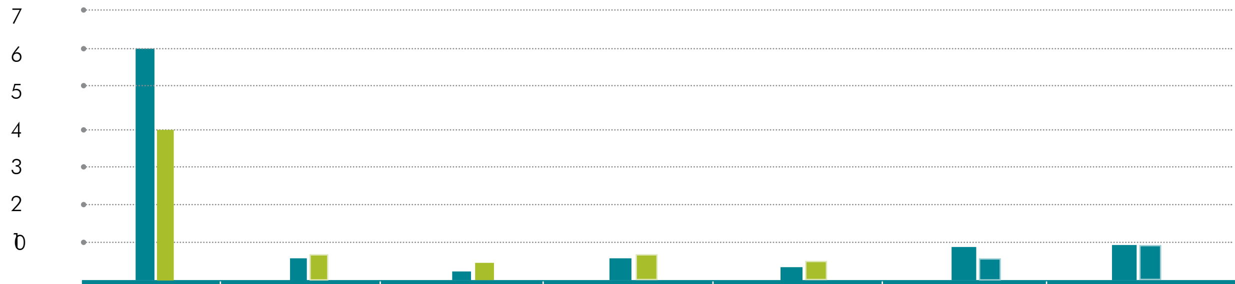
BLACK ECONOMIC EMPOWERMENT CATEGORY

	2018/19	2019/20
Level	6	4
Total	70%	80%
Management control	15%	59%
Skills development	70%	78%
Localization	28%	55%
Enterprise and supplier development	84%	77%
Socio-economic development	100%	100%





DENEL SOC LTD B-BBEE SCORECARD



	Level	Total	Management control	Skills development	Localisation	Enterprice and supplier development	Socio-economic development
2018/19	6	70%	15%	70%	28%	84%	100%
2019/20	4	80%	59%	70%	55%	77%	100%

2018/19 2019/20

ENVIRONMENTAL STATISTICS

ENERGY CONSUMPTION

Campus	Electricity (kwh)	Liquid petroleum gas (kg)	Coal (kg)	Heavy fuel oil (litres)	Aviation turbine fuel (litres)	Petrol (litres)	Diesel (litres)	Paraffin (litres)
Kempton Park	23 768 748	156 576		237 011	148 677	5 835	12 650	
PMP	15 138 488	54 612	652 510			3 462	16 486	
Irene	19 558 391				200	17 230	11 610	
Lyttelton	6 706 741					21 838	29 251	
DVS	5 781 610	14				21 003	14 785	
OTR	5 247 852					47 975	110 711	
LMT	0						0	
Houwteq	1 957 538					8 000	2 000	
Total	78 159 368	211 202	652 510	237 011	148 877	125 342	197 494	0

TONNES CO_2 EQUIVALENT EMISSIONS

Campus	Electricity	Liquid petroleum gas	Coal	Heavy fuel oil	Aviation turbine fuel	Petrol	Diesel	Paraffin
Kempton Park	22 580	459.9		753	377	13	34	
PMP	14 382	160.4	1 600			8	44	
Irene	18 580				1	40	31	
Lyttelton	6 371					50	79	
DVS	5 493	0.04				48	40	
OTR	4 985					111	298	
LMT	0					0	0	
Houwteq	1 860					18	5	
Total	74 251	620	1 600	753	378	289	531	0

	Fuel Ttype	Quantity	Tonnes CO_2e
Scope 1 *(Based on DEFRA 2018 CO_2e factors)*	Liquid petroleum Gas (kG)	211 202	620
	Coal (kg)	652 510	1 600
	Heavy fuel oil (litres)	237 011	753
	Aviation turbine fuel (litres)	148 877	378
	Petrol (litres)	125 342	289
	Diesel (litres)	197 494	531
	Paraffin (litres)	0	0
	Total Scope 1 CO_2e (Tonnes)		4 171

Scope 2 ($C0_2e$ factor: Eskom)	Electricity (kWh)	78 159 368	74 251
	Total scope 2 CO_2e		74 251

GLOSSARY

ACRONYM	FULL DESCRIPTION
ACI	African, Coloured and Indian
AGM	Annual General Meeting
Airbus	Airbus DS Optronics (Pty) Ltd
AMD	South African Aerospace, Maritime and Defence Industries Association
Armscor	Armaments Corporation of South Africa
B-BBEE	Broad-based Black Economic Empowerment
Board	Denel Board of Directors
BPLWD	Black people living with a disability
BYO	Black youth owned
Capex	Capital expenditure
CAR	Capital Adequacy Requirement
CEO	Chief Executive Officer
CFC	Controlled foreign currency
CFO	Chief Financial Officer
CHF	Swiss Franc
Companies Act	South African Companies Act, No. 71 of 2008
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COVID-19	Corona Virus Disease 2019
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CSH	Combat support helicopter
CSR	Corporate Social Responsibility
DD	Denel Dynamics
DDG	Deputy Director-General
Dekra	German Motor Vehicle Inspections Association
Denel Asia	Denel Asia LLC
Denel OTR	Denel Overberg Test Range
DG	Director-General
DHET	Department of Higher Education and Training
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMTN	Domestic Medium Term Note
DoD	Department of Defence

ACRONYM	FULL DESCRIPTION
DPE	Department of Public Enterprises
DSSB	Defence Services Sdn Bhd
DTA	Denel Technical Academy
DVS	Denel Vehicle Systems (Pty) Ltd
EBIT	Earnings before interest and taxation
ECL	Expected credit loss
EE	Employment equity
ERW	Explosive Remnants of War
EUR	Euro
EXCO	Group Executive Committee of Denel
FIFO	First-in-first-out
G4	Sustainability Reporting Guidelines
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GDP	Gross domestic product
Government	South African government, unless otherwise stated
GRI	Global Reporting Initiative
Hensoldt	Hensoldt Optronics (Pty) Ltd, previously known as Airbus DS Optronics (Pty) Ltd (Airbus)
HR	Human resources
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICT	Information and Communication Technology
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Intellectual Property
IR	Integrated Reporting
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information Technology
Ko	Kilogram
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016

ACRONYM	FULL DESCRIPTION
kWh	Kilowatt-hour
L	litres
LAAD	Latin American Defence and Scanty
LMT	Land Mobility Technology (LMT) Holdings SOC Ltd (RF)
Merseta	Manufacturing, Engineering and Related Services Sector Education and Training Authority
MRO	Maintenance, Repair and Overhaul
MTH	Medium transport helicopter
NADCAP	National Aerospace and Defence Contractors Accreditation Programme
NCACC	National Conventional Arms Control Committee
NDIC	National Defence Industry Council
OCI	Other comprehensive income
OEM	Original Equipment Manufacturer
OHS	Occupational health and safety
OMC	Olifant Manufacturing Company
OTR	Overberg Test Range
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, no. 1 of 1999
PMP	Pretoria Metal Pressings
PR&T	Personnel, Remuneration and Transformation
(Pty) Ltd	(Proprietary) Limited
PWC	Pricewaterhouse Coopers
PWD	People with disability
R&D	Research and Development

ACRONYM	FULL DESCRIPTION
R/Rand/ZAR	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
Rm	South African Rand million
S&E	Social and Ethics
SAAF	South African Air Force
SA Army	South African Army
SADI	South African Defence Industry
SANDF	South African National Defence Force
SANSA	South African National Space Agency
SAPS	South African Police Service
SARS	South African Revenue Services
SCM	Supply chain management
Shareholder	South African government
SIU	Special Investigating Unit
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
SOP	Schools Outreach Programme
STEM	Science, Technology, Engineering and Mathematics
t	tons
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UN	United Nations
USA	United States of America
USD	United States Dollar
VAT	Value-added tax
VSP	Voluntary Severage Package

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ANTI FRAUD AND CORRUPTION

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NOTES

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