DENEL

TWENTY **18/19**

INTEGRATED 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 2018 to 31 March 2019. 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 102.

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 page 96.

MS M HLAHLA
Chairperson

MR T SADIK
Audit Chairperson

ABOUT THIS REPORT

DENEL

A GLOBAL DEFENCE
TECHNOLOGY COMPANY

INTEGRATED REPORT

TWENTY 18/19

CONTENTS

TWENTY 18/19
INTEGRATED REPORT

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

WHO WE ARE

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PART 1

WHO WE ARE

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 & 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

PERFORMANCE
We embrace operational excellence

INTEGRITY
We are honest, truthful and ethical

INNOVATION
We create sustainable, innovative solutions

CARING
We care for people, customers, suppliers, communities and the environment

ACCOUNTABILITY
We take responsibility for our actions

DENEL

A GLOBAL DEFENCE TECHNOLOGY COMPANY

PERFORMANCE HIGHLIGHTS

ECONOMIC

Revenue
R3.8bn
2017/18 | R5.8bn

Cash
R575m
2017/18 | R1.3bn

Debt: Equity
-2.05:1
2017/18 | 7.39:1

Borrowings
R3.4bn
2017/18 | R3.3bn

Net profit/loss
(R1 749m)
2017/18 | (R1 053m)

R&D
R108m
2017/18 | R769m

TRANSFORMATION

B-BBEE
Level 6
2017/18 | Level 6

Female appointments
58%
2017/18 | 44%

ACI* appointments
83%
2017/18 | 83%

SOCIAL

Skills development
R32m
2017/18 | R52m

Corporate social investment
R593k
2017/18 | R9.4m

Employee numbers
3 968
2017/18 | 4 629

Black-owned * spend
R417m
2017/18 | R614m

* *"Black"/ACI means African, Coloured or Indian persons as defined by the B-BBEE Act.*

WHO WE ARE

ONE DENEL. ONE VISION. ONE PURPOSE!

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 (UAVS) and optical payloads based on high-end technology.

OUR BUSINESS DIVISIONS ARE AS FOLLOWS:

DENEL AERONAUTICS

Denel Aeronautics operates in conjunction with Denel Aerostructures (SOC) Ltd and incorporates the Denel Technical Academy (DTA). Denel Aeronautics delivers end-to-end-aeronautical solutions including aircraft, engine and component maintenance, repair and overhaul services (MRO), aircraft system upgrades and integration together with design, development and manufacturing of complex metallic and composite aerostructures. Denel Aeronautics is the original equipment manufacturer (OEM) of the Rooivalk combat support helicopter, as well as the design authority for both the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft.

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 UAVS and high-speed target systems and develops satellite systems for the SA government through SANSA (South African National Space Agency). 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 OMC, Denel Gear Ratio and Denel Mechatronics. DVS has close relationships with the SANDF, especially the SA Army, Armscor and the SAPS, as well as with the NIMR and IGG companies in the UAE and several other local and international customers, suppliers and collaborators.

LMT SOC LTD (RF)

LMT specialises in the design and manufacture of armoured vehicles with protection against ballistics, landmines and improvised explosive devices (IEDs). Its design capabilities provide for the integration of protection technologies into armoured vehicles with, amongst others, flat or semi-flat floor landmine protection.

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 range 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.

DENEL **SOVEREIGN SECURITY SOLUTIONS**

Denel Sovereign Security Solutions (Denel S3) was established to focus on Denel's strategy to diversify into the sustainable non-defence civil security markets. Denel Tactical Cyber Command Centre (DTC3) will protect defence and security interests through accredited cybersecurity services aligned to the National Cybersecurity Policy Framework (NCPF) and the Defence Review 2015. Denel S3 will also intensify efforts to secure projects in command and control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions in national, provincial and international security institutions and/ or government departments.

CHAIRPERSON'S REPORT

The turnaround of Denel's business has continued at a steady pace since the appointment of the current Board in May 2018. Our initial focus has been to investigate and determine the extent of state capture and corruption that existed within the group and to restore good governance to an organisation whose reputation has been battered in recent years.

This process will continue and decisive steps have been taken against individuals who have been found guilty of corruption, mismanagement and the flouting of Denel's corporate guidelines.

Moreover, in the past financial year the Board has taken far-reaching steps to stabilise the business and prepare the ground for Denel's long-term sustainability. We are, indeed, grateful for the strategic guidance and strong support that we receive from our shareholder, the government, especially the Minister of Public Enterprises and the Department.

We are confident that government recognises the value that a revitalised and stable Denel can add to the South African society and our potential contribution during the country's transition towards the 4th Industrial Revolution.

Denel is committed to achieve the conditions that accompany the recapitalisation from the shareholder. We remain aligned with the shareholder's expectations that we dispose of non-core assets on an urgent basis and establish strategic equity partnerships across the various divisions of the company.

TURNAROUND PLAN

The turnaround plan introduced by the Board remains at the core of our strategy to ensure the long-term sustainability of the organisation. The key strategic objectives are:

- To maximise the value of the core business areas
- To deliver on strategic partnerships
- To exit non-core business areas
- To improve corporate governance and combat fraud, corruption and wastage
- To drive cost reduction and optimise the utilisation of our assets
- To secure funding and high-level support from our shareholder
- To grow our order book
- To ensure the retention of core skills and capabilities
- To restore Denel's reputation and improve employee morale and loyalty

We are pleased to report that we have made measurable progress across all these fronts during the past financial year.

The challenges flowing from our liquidity position were highlighted in the public environment, but we are grateful for the interventions by the shareholder and investors to obtain bridging finance that enabled us to pay salaries and employee contributions.

Despite the negative sentiments that have been raised around governance issues, Denel's reputation as a world-class provider of innovative defence, security, and advanced technology solutions remains high in both local and international markets.

We continue to maintain strong partnerships with countries in South America, the Middle East and the Asia-Pacific Region. Locally, we are building on the decades of close cooperation with the SA National Defence Force, the Department of Defence and Military Veterans, Armscor and the local defence industry.

Our future restructuring will include strategic partnerships with both local and international players as well as divestment from non-core assets. We are encouraged by the interest shown within the defence and technology environments to either partner with Denel or acquire parts of the business, despite the negative sentiments of the recent past.

Our intention is to build on these solid foundations and to leverage the respect for the quality of our products and services to win new contracts and orders. We have identified sizeable opportunities within the market which we intend to turn into an order pipeline.

Our new business strategy includes measures to move the company away from its heavy reliance on debt and achieve sustainable growth. In addition, we will continue to reduce our operating costs, cut back on unnecessary spending, rationalise business structures and renegotiate onerous contracts.

GOVERNANCE ISSUES

The Board has, since its appointment in April 2018, made a number of appointments to key management positions which enable Denel to meet the current challenges and position the company for a new era of growth.

Mr Danie du Toit joined us in January 2019, as the new Group Chief Executive Officer, bringing with him a wealth of experience and expertise in both local and international defence and high-technology arenas.

Ms Carmen Le Grange joined us in September 2019 as the new Group Chief Financial Officer and is a seasoned chartered accountant. The board is confident that this appointment will strengthen Denel's management team and contribute towards a strong culture of corporate governance. In her new position, she will oversee the financial affairs of the Denel group, play a critical role in improving audit results, financial systems and capability.

The implementation of our turnaround will require restructuring of divisions to create a nimbler organisation and the appointment of appropriate executives to strengthen our leadership team.

> Despite the negative sentiments that have been raised around governance issues Denel's reputation as a world-class provider of innovative defence, security, and advanced technology products remain high in both local and international markets.

During the past year, we have taken far-reaching steps to address issues that were highlighted in the allegations about state capture and dubious transactions that took place during the watch of the previous leadership.

Disciplinary processes were introduced to address failures of governance that occurred and we are determined to follow through by means of criminal and civil litigation to act against corrupt individuals and recover money that was squandered.

We have also pledged our cooperation to the judicial commission into state capture led by Deputy Chief Justice Zondo and the enquiries that are being launched by the Special Investigative Unit and the Hawks. The Board is taking serious note of the issues raised by the Auditor General in its report on Denel's annual financial statements.

The recommendations are being implemented in a systematic way and whilst the pace on improvements is not as rapid as the Board would like, it is confident that given the recent appointments at management executive level this will serve as a strong foundation to start strengthening the internal control environment. We are, no doubt, turning the tide on corruption and mismanagement at Denel.

However, the future of the organisation will depend on the quality of leadership provided by the Board and management and the measures we are introducing to ensure sound corporate governance.

A revised supply chain management policy will be finalised shortly while comprehensive guidelines on the delegation of authority are being implemented.

WORDS OF APPRECIATION

We are pleased to report that our efforts to establish a new Denel with one vision and one purpose enjoy the support of our shareholder and partners within the broader South African public sector.

I want to extend a word of gratitude towards the Minister of Public Enterprises, Mr Pravin Gordhan, and Deputy Minister Phumulo Masualle, who have been steadfast in their support for Denel and are providing the company with strategic direction.

Our relationships with the broader defence community remain strong and we welcome the support from the Minister of Defence, Ms Nosiviwe Mapisa-Nqakula, the Secretary of Defence, the Chief of the SA National Defence Force and the leadership of Armscor and the Association of Maritime and Defence Industries of South Africa.

We value the strategic input from the Minister of Finance and National Treasury and a similar word of thanks goes towards financial institutions and debt providers that have engaged with Denel and provided support through various funding instruments.

I want to express my appreciation to the members of the Board who are contributing their wide range of skills and experience towards the broader efforts to rebuild the organisation.

The quality of our human resources remains our biggest asset. Through the years Denel has built an enviable reputation to attract, develop and retain some of the brightest minds in the industry.

We have no doubt that the revelations about irregularities and financial mismanagement have had an impact on staff morale and confidence in the leadership. However, we remain grateful for the support that we receive from employees and remain committed to extend our relationships with employees and labour unions.

TOWARDS THE FUTURE OF DENEL

We are confident that we have reached a turning point in the rebuilding of Denel. We have assembled a strong and committed management team which will be further strengthened by new appointments in the coming financial year.

Our turnaround plan will start to deliver more tangible results, and this will enable Denel to emerge as a revitalised organisation with great potential for future growth and as a proud contributor to a capable state and a modern South Africa.

Monhla Hlahla
Chairman of the Board of Denel SOC

BOARD OF DIRECTORS

MS MONHLA HLAHLA (56)

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 P,R&T 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

VALUE ADD TO THE BOARD: Skills in leadership, training, mining, development, finance, trade finance, banking and investment management

MR DANIEL DU TOIT (53)

B. Com Degree (UNISA), M Com (Business Management) (UNISA), Executive Development Programme (Gibbs), Advanced Corporate Management Network Training - Saab Internal (Sweden, Australia), International Operations Training - Stockholm School of Economics IFL (Sweden, China)

GROUP CHIEF EXECUTIVE OFFICER and EX OFFICIO DIRECTOR

Appointed as group chief executive officer with effect 14 January 2019

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

DIRECTORSHIPS: None

VALUE ADD TO THE BOARD: Leadership, strategic planning and implementation, business management professional practice and ethics, project planning and management and negotiation skills

MS CARMEN LE GRANGE (47)

B.Com Degree (UKZN), Post Graduate Diploma in Accountancy (UKZN), Theory in Audit Specialism (UCT/RAU), CA (SA)

GROUP CHIEF FINANCE OFFICER and EX OFFICIO DIRECTOR

Appointed as group chief financial officer with effect 09 September 2019

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

DIRECTORSHIPS: Standard General Insurance Company Limited ("Stangen"), member of the Audit Committee. National Department of Tourism – Audit Committee Member, IRBA, Education and Transformation Committee, Abacus Insurance Limited and Abacus Life Limited Board member and Independent Non Executive Director, member of the Audit Committee, member of the Risk Committee and member of the Remuneration Committee.

VALUE ADD TO THE BOARD: Finance, auditing, management, corporate governance and compliance, professional practice and ethics, risk consulting

DR SIBUSISO SIBISI (64)

PhD and BSc (Physics) of Science and Technology

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

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

DIRECTORSHIPS: Non-executive director at Liberty Holdings

VALUE ADD TO THE BOARD: Industry knowledge, technical, business strategy development and business leadership

LIEUTENANT GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA (66)

Presidential Strategic Leadership Development Programme, Master's Degree in Management and Development and a 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 NT (MPAT)

VALUE ADD TO THE BOARD: Industry knowledge, technical and business leadership

MS SUE RABKIN (70)

BA Hons in English and Education

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

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

VALUE ADD TO THE BOARD: Industry knowledge, technical and business leadership

MR TALIB SADIK (53)

Bachelor of Commerce, Advanced Diploma in Accounting, Advance Management Programme, CA(SA)

He served as GCEO of Denel between 2008 and 2012

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Audit Committee, member of the Risk Committee and Social and Ethics Committee

DIRECTORSHIPS: Non-executive director of Tohoku Properties, Sunspray Foods, Sectional Polls, Sita SOC Ltd, Vaximax Inv. and Ardeen Inv.

VALUE ADD TO THE BOARD: Business strategy development, finance and corporate finance

MR THAMSANQA MAGAZI (61)

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 the PR&T Committee and member of the Risk Committee and Audit Committee

DIRECTORSHIPS: 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

VALUE ADD TO THE BOARD: Business strategy development and implementation, operations and sales leadership and stakeholder management

MS KABELO LEHLOENYA (39)

Diploma in General Management, B. Com (Accounting), B. Com. Hons (General), B. Comm. Hons (Accounting), Post Graduate 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, member of the Audit Committee and Finance and Investment Committee.

VALUE ADD TO THE BOARD: Skills in budgeting; financial reporting, risk managementand compliance, stakeholder engagement and business leadership

MS NONZUKISO (ZUKIE) SIYOTULA (35)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the Audit Committee and the PR&T Committee

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

VALUE ADD TO THE BOARD: Business leadership in the financial services and investment sectors

MR MANDLA MARTIN MNISI (38)

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 Finance & Investment Committee and Risk Committee.

DIRECTORSHIPS: Director - MNS Attorneys

VALUE ADD TO THE BOARD: Legal and business leadership

GENERAL (RETIRED) SIPHIWE NYANDA (66)

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 the PR&T Committee

DIRECTORSHIPS: Director of Gen S Nyanda Consulting and Oasis Media

VALUE ADD TO THE BOARD: Industry knowledge, technical and business leadership

MS GLORIA SEROBE (60)

B. Com Degree, MBA and an honourary PHD (Management Science), Presidential Strategic Leadership Development Programme, Master's Degree in Management and Development and a Bachelor of Social Science

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 9 April 2018 (confirmed by cabinet on 24 May 2018)

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

DIRECTORSHIPS: Co-founder and Executive Director of Wipholding, chief executive officer of Wipcapital (Pty) Ltd and non-executive director of Hans Merensky Holdings (Pty) Ltd, the Mamba Cement Company (RF) (Pty) Ltd, Adcorp Holdings, Sasfin Bank Limited, Sasfin Holdings Limited and Sasfin Wealth (Pty) Ltd

VALUE ADD TO THE BOARD: Finance and business leadership

DR HANNELIE NEL (47)

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 Social and Ethics Committee, member of the Risk Committee and PR&T Committee

DIRECTORSHIPS: Managing Director of Tennelli Industries

VALUE ADD TO THE BOARD: Industry knowledge, technical and business leadership

EXECUTIVE COMMITTEE

MR DANIEL DU TOIT (53)

B. Com Degree (UNISA), M Com (Business Management) (UNISA), Executive Development Programme (Gibbs), Advanced Corporate Management Network Training - Saab Internal (Sweden, Australia), International Operations Training - Stockholm School of Economics IFL (Sweden, China)

GROUP CHIEF EXECUTIVE OFFICER & EX OFFICIO DIRECTOR

Appointed to the group executive committee in January 2019

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

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategic planning and implementation, business management professional practice and ethics, project planning and management and negotiation skills

MS CARMEN LE GRANGE (47)

B.Com Degree (UKZN), Post Graduate Diploma in Accountancy (UKZN), Theory in Audit Specialism (UCT/RAU), CA (SA)

GROUP CHIEF FINANCE OFFICER and EX OFFICIO DIRECTOR

Appointed as group chief financial officer with effect 09 September 2019

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

DIRECTORSHIPS: None

VALUE ADD TO THE BOARD: Finance, auditing, management, corporate governance and compliance, professional practice and ethics, risk consulting

MR KHOHLONG WILLIAM HLAKOANE (47)

Mechanical Engineer with an MBA from the Milpark Business School

GROUP CHIEF OPERATIONS OFFICER

Appointed to the group executive committee in July 2019

DENEL BOARD COMMITTEE MEMBERSHIPS: NONE

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Engineering and Systems Engineering discipline, manufacturing sector, operations management

MS MERCIA NGEMA (45)

MBA, Post Grad 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 PR&T board subcommittee

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Developing & managing HR strategy, talent management & retention, the PR&T Committee, leadership and business acumen

DENEL BUSINESS DIVISIONS' CHIEF EXECUTIVE OFFICERS

SELLO NTSHIHLELE (56)

M.Eng (Electrical and Electronic), MBA

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

Appointed as acting chief executive officer in 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 (52)

BA (Hons) Economics, BEd, PDM (Bus Admin), Diploma (Management), Executive leadership programme

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 (47)

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

CHIEF EXECUTIVE OFFICER: DENEL LANDWARD

Appointed as chief executive officer in August 2019

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

BRIDGET SALO (43)

MSc (Computer Science), Executive leadership programme

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE (Acting)

Appointed as Acting chief executive officer in April 2019

DIRECTORSHIPS: NONE

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

MIKE KGOBE (50)

Master's Degree: Aeronautical Production & Maintenance, Executive Leadership, Programme, Executive Development Programme.

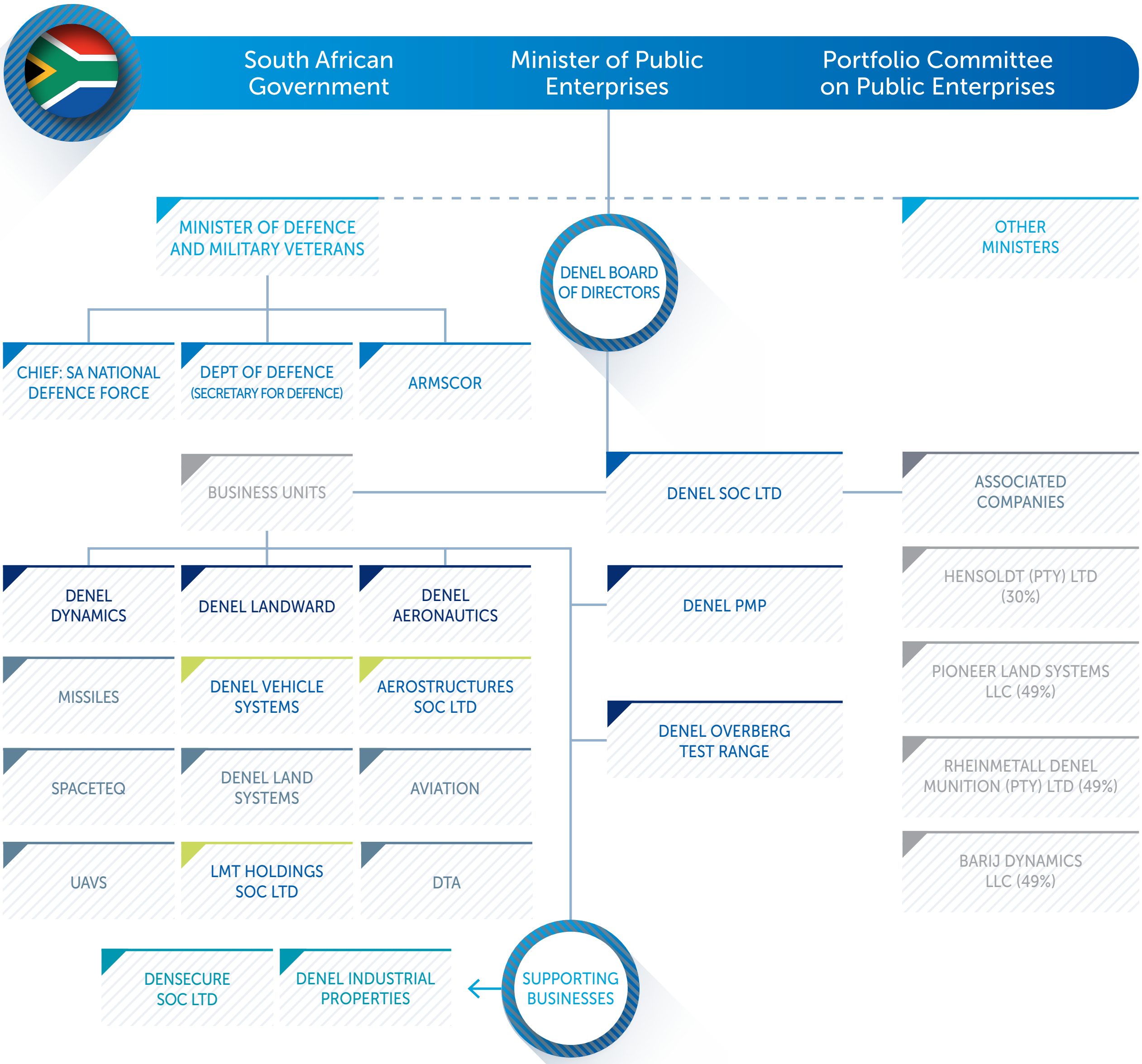
CHIEF EXECUTIVE OFFICER: DENEL AERONAUTICS

Appointed as chief executive officer in March 2010

DIRECTORSHIPS: NONE

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.

ORGANISATIONAL STRUCTURE

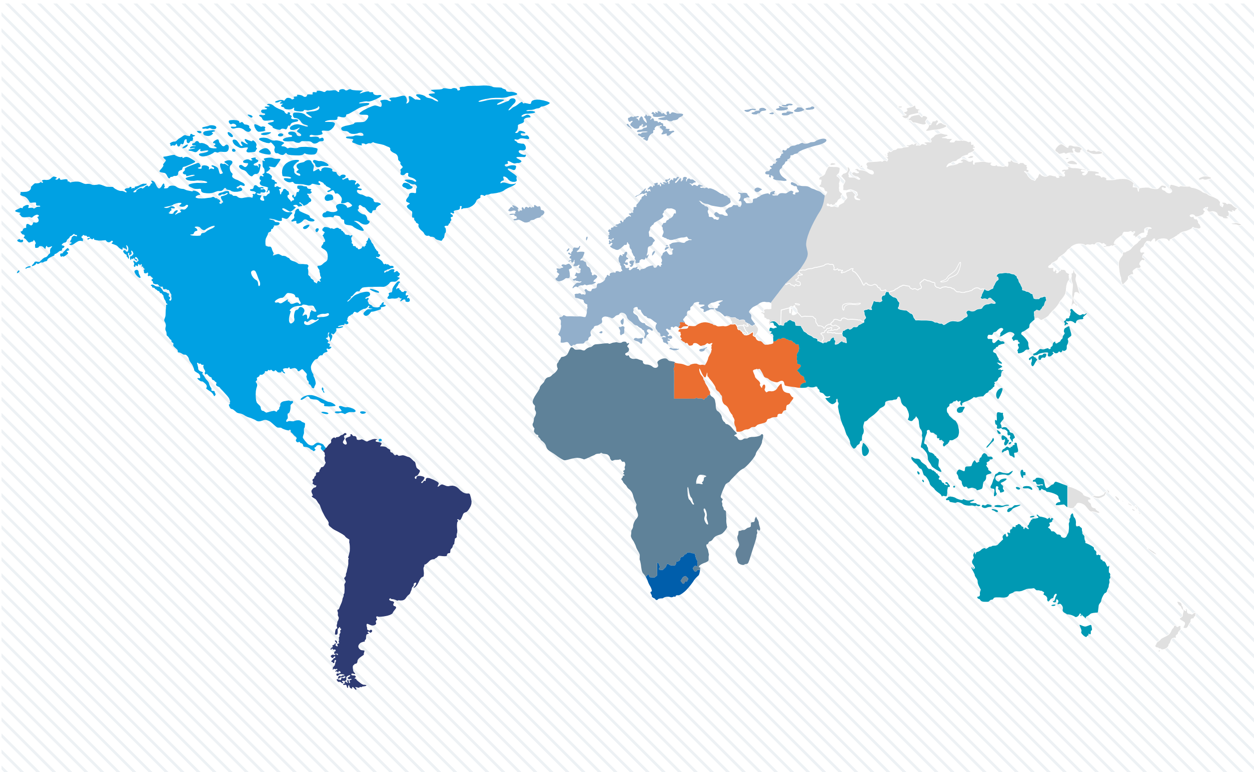


STRATEGIC EQUITY PARTNERSHIPS

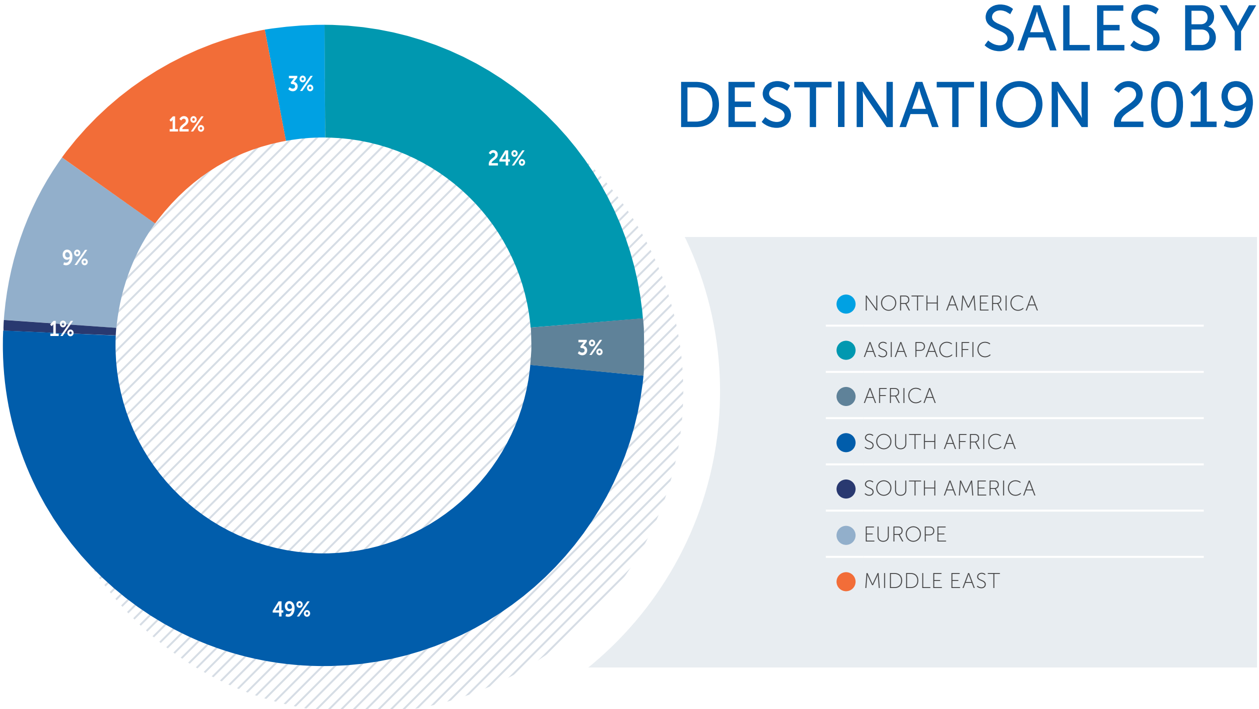
HENSOLDT	INTERNATIONAL GOLDEN GROUP	RHEINMETALL DEFENCE	PAMODZI	TAWAZUN

1. *Denel acquired the full stake in Turbomeca Africa, and it was incorporated into the Denel Aeronautics division.*
2. *Denel Asia is in the process of deregistration.*

OUR GLOBAL PRESENCE



SALES BY DESTINATION 2019



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 skilled workforce
- Retaining key talent

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

NATURAL
- Energy needs for manufacturing

SOCIAL & STAKEHOLDER ENGAGEMENTS
Effective engagements to:
- Employees and trade unions
- Shareholder 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, assembling, integration and testing

SERVICES, SUPPORT & UPGRADE
Delivery, product support and warranty

OUTPUTS*

PRODUCTS

SERVICES

SOLUTIONS

OUTCOMES

R&D spend R108m

R2.1bn paid remuneration

Skills development R32.5m

Level 6 B-BBEE

Sustained strategic capabilities

3 968 employees

Responsible leadership

CSI Spent R593k

Cash & cash equivalents R575m

R3.8bn revenue

Order pipeline <R40bn

R1 749m loss

Positive relationship with **organised labour**

0 Learnerships, sponsorships & other training

EXTERNAL ENVIRONMENT :
- *Global demand for defence and security products*
- *Shareholders Compact demands*

**Further detail on products is found on page 8 on Denel Capabilities*

PART 1

CREATING VALUE FOR OUR STAKEHOLDERS

CREATING VALUE FOR OUR STAKEHOLDERS

PART 2

HUMAN CAPITAL

Denel is a proud South African public company that contributes greatly towards talent building and nurturing. The company's strategy on talent building and management planning is aligned to its purpose statement and business strategy. The company offers and drives 360-degree skills and talent management programmes cutting across all occupational categories in the organisation.

FOCUS AREAS

TALENT MANAGEMENT

Ensure that Denel's skills needs will be adequately met in the short, medium and long term

LEADERSHIP DEVELOPMENT

Ensure that Denel's leaders are adequately equipped to lead change within an ever changing business landscape

CULTURE

Improve the level of diversity and inclusivity within the existing workforce, while creating an environment that promotes engagement and satisfaction of a diverse workforce profile

WORKFORCE CAPABILITY

Ensure that current and future skills requirements are identified and developed

As part of Denel's turnaround plan, the company embarked on a process of offering voluntary severance packages to its employees. A total of 306 applications were received and 201 were approved. This process supports the company succession plans with young people receiving opportunities to be appointed to positions being vacated by senior employees that are approaching retirement age.

Leadership development is critical to ensure that Denel leaders are adequately equipped to lead change within an ever-changing business. The Denel/Henley Leadership programme has completed a full cycle and to support the turnaround plan the company is exploring alternatives to feed into the leadership / succession process within Denel.

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 Merseta. One of the critical elements considered this year was how to streamline the intake. 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.

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, whilst 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.

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, but non-Denel bursary holders are also accommodated.

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 targeted for employment.

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 principal engineers, right up to consulting engineers. They also range also from junior project/programme managers to specialist project /programme managers.

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 also acknowledges that succession planning is a business imperative to ensure the survival, growth and profitability of the company. The company identifies key positions within the group for succession planning, as well as critical positions occupied by individuals approaching retirement age at the level of group executives/divisional CEOs, senior, middle and junior managers.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Total employees at 1 April 2018: 4 629 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 R2 200m (2017/18: R2 399m) Total headcount 3 968 (2017/18: 4 629) Artisans trained 212 (2017/18: 249) Spend on skills development R32m (2017/18: R52m)

ACTIONS TO ENHANCE OUTCOMES

» Building and retaining critical skills
» Focused retention and recruitment of young professionals to ensure effective succession
» Improving employee morale

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 compact. The Corporate Social Investment Programme (CSI) 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, towards 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.

In the past 10 years, Denel's flagship intervention has been the Schools Outreach Programme (SOP), which operates as an extra-tuition programme during weekends and school holidays. The SOP delivers additional tuition in mathematics, science, English and life science to learners in the beneficiary schools. The programme serves as a feeder to Denel's skills development pipeline and learners who do well in their matric year become eligible for a bursary to study at either a University or at the Denel Technical Academy (DTA).

In partnerships with the Departments of Education in six provinces – Eastern Cape, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga and the North West – the SOP has an annual average enrolment of about 500 learners in Grades 10 to 12. The additional tuition they receive in the subjects contributes an extra 65 days to the academic calendar. The programme has made immense contributions towards improved matric results over the years. It has produced learners who have achieved distinctions in these critical subjects and further received provincial recognitions during annual awards ceremonies.

To complement the extra-classes and improve the quality of learning and understanding, Denel partners with the South African Air Force (SAAF) to host winter camps where learners are provided tuition in maths and science with an exposure to products and talent within the STEM environment.

The group's interventions further include donating laboratory infrastructure to impoverished schools, which contribute to the study of science and improves learner performance in this subject.

Although the company's liquidity challenges in this financial period also had a negative impact on the group's CSI, the programme touched the lives of at least 430 learners across the country.

Operating parallel to the SOP, the DTA provides artisan training at Denel's Kempton Park Campus. The academy delivers technical training, which is aligned with the business of Denel as well as the country's requirements for critical and scarce skills. The academy creates a foundation for the future employability of young learners, trainees and apprentices. The training is also in line with the National Development Plan (NDP), which is South Africa's roadmap for the further development of the country to eradicate poverty and inequalities by 2030.

SUPPLY CHAIN INTERVENTIONS

An important element of Denel's mandate is to contribute to socio-economic objectives including skills development and transformation. Guided by that mandate, the supply chain seeks to procure quality products and services cost-effectively, while simultaneously advancing transformation objectives through targeted spend on eligible black-owned companies. This includes investing in the development of black-owned companies with potential. Denel creates value through processes and interventions that demonstrate its commitment to ethical business processes, participating in SA's economic growth, increasing spend on black suppliers, reducing unemployment and poverty and developing eligible black suppliers – with a specific focus on emerging SMMEs – and increasing support for locally manufactured products.

The local spend in 2019 (R1.8bn) has reduced when compared to 2018 (R3bn) and the percentage spend on local suppliers has also reduced by 9% to 64%. The erosion in spending is the result of the decline in business operations due to liquidity constraints. The spend on black / designated group companies improved overall from FY18 to FY19 with a beneficial impact on black youth-owned companies. The enterprise development programme has resulted in over 42 suppliers of which 28 is related to core business.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Enterprise supplier development CSI programmes that supports Maths and Science learners.	The developmental spend on both the ED and SD must be balanced against the financial capital. The investment in communities through social investment will reduce the financial capital in the short term but result in growth in this capital in the longer term.	• Supply Chain Management system that is focused on national plan to improve inequalities among previously disadvantaged individuals. • B-BBEE Status Level 6 (2017/18: level 6) • Enterprise development spend R3.8m (2017/18: R8.2m) • Learners who have benefited from the Schools Outreach Programme 0 (2017/18: 430) • Total CSI spend R593k (2017/18: R9.4m)
Collaboration with shareholder and funders		• Contributes to the improvement of math and science knowledge

ACTIONS TO ENHANCE OUTCOMES

- Improve the spend on military veterans and black youth through market scan of products and services and revisit the supply chain strategy to increase spend on the programme.
- Expand the CSI programme to all provinces
- 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 objective to manage, protect and rehabilitate the environment in conformance with our environmental management policy. Denel prioritises compliance with all applicable legal requirements.

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.

KEY ENVIRONMENTAL GOALS

- Protection of species and habitats, and the conservation of biodiversity and natural resources
- Mitigation of environmental disturbances, deterioration, contamination and/or destruction as a result of human activity and structures
- Providing a remediation plan for all business units
- CEOs appointed to execute environmental responsibility
  Social and ethics committee provides oversight

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

Denel's divisions have water management plans in place to manage and promote the efficient use of this resource. It remains a challenge to reduce consumption while maintaining our operations and facilities at optimal capacity. Denel is currently investigating the possibility of utilising groundwater (borehole water) at its facilities to reduce dependence on municipal water supplies, in support of national efforts to preserve water supplied from dams.

WASTE AND RECYCLING

The manufacturing processes include a significant amount of generated waste, some of which is hazardous. Management of waste is key for the group as part of the standard operating procedures of all hazardous substances to be stored and handled safely. Recycling or disposal of hazardous substances, as well as segregation and separation of hazardous substances, are addressed responsibly in all processes.

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 SHE 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 78 159 000kWh (2017/18: 92 416 475 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 with new technologies, and maintaining the internal knowledge accumulated over many years, and across many different products. Investment in R&D and the careful capturing and management of intellectual property 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 intangible skills of experienced and technically qualified employees, supported by required specialist equipment and facilities, are the key inputs in the intellectual capital. This defines the capability of the business.

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 sharing 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 direct capability of the business is supported by key organisational intangibles including, amongst others, the corporate know-how, management systems, and company culture. Intangible intellectual capital is particularly relevant in the implementation of large-scale projects. Here, project management, specialist procurement, management accounting, legal and contracting skills and efficient recruitment of the right human capital come to mind.

Denel is one of the few places in the country where engineers are exposed to the development of technically complex and large-scale systems. Its products require elements of all engineering disciplines, as well as the best practices in applying the newest technologies.

This is a natural attraction for young engineers. Such engineers are recruited from university and immediately adopted into functional teams. This allows them the opportunity to be trained on-the-job while working individually and under leadership and mentorship of experienced senior personnel. Post-graduate studies are encouraged, and continued training is organised. This ensures that Denel's workforce stays ready to face the requirements of this demanding and satisfying workplace.

During development, a challenge may be that the complexity of, or the scope of work, is sometimes underestimated at conceptualisation. This may lead to delays in project deliveries. 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 support phase. The framework is currently being rolled out on a very large opportunity for an international customer.

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 the intellectual capital reduces the financial capital in the short term but increases the financial and human capitals in the long term.	Investment in R&D R108m (2017/18: R769m) Investment in bursary and internship programmes

ACTIONS TO ENHANCE OUTCOMES

- Investment in R &D to keep abreast with 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 2018/19 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; and
- Adopt an aggressive and focused cardinal campaigns to increase the order book.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
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	EBIT (R1 886m) (2017/18: -R965m) Cash generated from operations (R 907m) (2017/18: R394m) Cash and cash equivalents -R575m (2017/18: R1277m)

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

STAKEHOLDER ENGAGEMENT

Denel recognises the fact that it needs the support of stakeholders, in particular customers, suppliers and employees to achieve a complete turnaround of the business. To restore the confidence of the public, the shareholder and more specifically the funders, Denel has to demonstrate that it is taking steps to address and strengthen governance in the organisation.

The King IV Report for Corporate Governance identifies stakeholder engagement as a key aspect for integrated reporting. It is seen as crucial to strategic business and reporting decisions and suggests a greater requirement for companies to include stakeholders into decision-making. Good governance and leadership, as well as sufficient resources are required to ensure robust stakeholder engagement processes.

A Board of Directors was appointed in April 2018 to exercise oversight over Denel, following a period marked by lapses in corporate governance and allegations of corruption levelled against the company's leadership. In the financial year under review, Denel has, in addition to a new Board, appointed a new Group Chief Executive and developed a new strategy.

The process of rebuilding the company and its reputation is underway The Board initiated investigations into dubious transactions that took place during the watch of the previous leadership and has supported management in introducing processes to improve organisational values and culture.

As part of the Governance turnaround, Denel is cooperating fully with the Zondo Commission into state capture, the Special Investigative Unit and the Hawks. The company is cleaning up corporate governance processes to rebuild its reputation.

The focus of the stakeholder engagement function in the 2018-19 financial year was on the governance turnaround, cleaning up the scourge of corruption from previous years and rebuilding relationships with key stakeholders. Restoring trust, rebuilding and strengthening relationships will continue into the next financial year. The table below is an overview of the engagement process in the 2018/19 financial period.

STAKEHOLDER GROUP

SHAREHOLDER, PARLIAMENT AND OTHER KEY GOVERNMENT DEPARTMENTS
- DPE
- DoD
- Parliament RSA

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Engagement with the shareholder to obtain support for Denel's turnaround plan to clean up the company and instil a corporate governance culture • Engagement on Denel's business model, the state of finances and support for recapitalisation of the business • Aligning to the shareholder developmental agenda for Denel as articulated in the Shareholder Compact • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Permanent appointments to fill acting positions as part of stabilising the company • Government oversight of progress in advancing Broad-based Black Economic Empowerment, diversity management, skills and enterprise development within Denel	• Regular meetings between the Minister and the Board Chairperson, members of the Board and Executive Directors • Meetings and multi-stakeholder workshops • Bilateral and issue-specific meetings between the DPE and Denel's executive management • Presentations to the DPE and the Parliamentary Committees as and when required • Participation and visibility of the shareholder in Denel's initiated stakeholder activities, e.g. exhibitions, air shows, gala dinners, golf days and hospitality suites	• Strengthened relationship with the Shareholder • Stronger support from Government

STAKEHOLDER GROUP

PRIMARY CLIENTS AND CUSTOMERS

- Department of Defence
- Armscor
- SAPS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Liquidity challenge and its impacts on the business • Introduction of the new Board, sharing of governance turnaround plan and its progress • Introduction of the Group CEO and the new Denel business strategy • Programme management and delivery • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Update on the ongoing investigations of possible irregular expenditure, allegations of state capture and participation in the Zondo Commission • Rebuilding and strengthening relationships with the DoD and Armscor, as the key clients and partners • Collaborating in the legislative development to benefit the South African Defence industry (SADI)	• Monthly and weekly issue-driven meetings e.g. SAAF- Denel steercom meetings • Joint planning sessions between Denel and DoD/Armscor • Regular briefings to the Ministry, Secretary for Defence (Sec Def), Chief of the Defence Force, Council on Defence (COD), and Plenary Defence Staff Council (PDSC) • Submission and discussions of project reports • Meetings between Denel and Armscor boards and excos • Engagements at events planned by either Denel or the DoD and Armscor including the: • Swartkops Air show • Africa Aerospace & Defence Show 2018 • Golf days and gala dinners • Events linked to the DoD Budget Vote	• Progress in rebuilding the relationships and increasing trust levels. • Collaborative approach in resolving programme delivery challenges

STAKEHOLDER GROUP

OTHER GOVERNMENT DEPARTMENTS

- National
- Treasury
- DoT
- DST
- DTI
- DTPS
- DHA
- DIRCO
- CoGTA
- DHET

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• The appointment of a new Board of Directors and progress on the governance turnaround plan • Engagement to obtain support for Denel's new business strategy • Engagement on the liquidity challenges facing Denel • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • The appointment of a new Group Chief Executive Officer (GCEO) and filling in of executive positions • Update on investigations of irregular expenditure, allegations of state capture and participation in the Zondo Commission • A clear and defined role that Denel can play in government's developmental agenda	• Meetings with senior officials • Attending Budget Votes of government departments with relevance to Denel's business • Participation in government business delegations both local and International • Participation by senior government officials in Denel stakeholder activities	• Relationships getting repaired and trust restored • Greater awareness of interventions to strengthen Governance and return company to profitability

STAKEHOLDER GROUP

INDUSTRY PARTNERS AND CLIENTS

- NDIC
- AMD
- International clients
- Local commercial clients
- Diplomatic community
- SAX
- CSIR

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• The appointment of a new Board of Directors and progress on the governance turnaround plan • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Update on the investigations of irregular expenditure, allegations of state capture and participation in the Zondo Commission • The appointment of a new Group Chief Executive Officer (GCEO) and filling of executive positions • Liquidity challenges and their impact on programme delivery and the industry • Industry support for Denel's new business strategy • Industry-wide voice as a forum to promote a shared view on key industry issues	• Regular interactions with key industry bodies including AMD, NDIC, SADI • Presentations to various industry bodies, strategic committees, working groups and forums • Client visits to Denel campuses • Participation at international and local exhibitions and trade shows • Hosting of foreign delegations and defence attachés at Denel campuses	• Progress in rebuilding relationships and improving trust levels. • Industry support to the Board and new executives • Support to Denel Board initiatives to clean up the company and rebuild governance structures

STAKEHOLDER GROUP

SUPPLIERS / CREDITORS

- International clients
- Local commercial clients

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• The appointment of a new Board of Directors and progress on the governance turnaround plan • Engagement to rebuild strained relations due to liquidity challenges and to strengthen communication with the supplier and creditor community. • Engagement on the state of Denel's business and its impact on the non-payment of suppliers • Engagement to update and ensure that suppliers are kept abreast of developments and challenges on current projects/ programmes • 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 management with suppliers and contractors • Divisional quarterly supplier information sessions • Monthly and quarterly meetings • Customer-specific operational meetings • Industry networking sessions • Participation and visibility of suppliers in Denel's initiated stakeholder activities	• Improvement in supplier communication • Increased openness and transparency about challenges causing delays in payments

STAKEHOLDER GROUP

INTERNAL STAKEHOLDER
- Organised Labour
- All Employees

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• The appointment of a new Board of Directors and development of a governance turnaround plan • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Update on the investigations of irregular expenditure, allegations of state capture and participation in the Zondo Commission • The appointment of a new Group Chief Executive Officer (GCEO) and filling in of executive positions • Liquidity challenges and their impacts on operations, programme delivery and the industry • Denel State of the Business update, key strategic challenges and the new business strategy • Review of the business model, cost structure of the business, possibility of Section 189 and the opening of voluntary severance package (VSP) process	• Road shows by Board Chairperson, members of the Board, GCEO and senior executives • Group emails, Group CEO notes, intranet portal, info-grams • Statutory engagement platforms including the Labour Forum and RTCC • Participation and visibility of employees in Denel events • Quarterly engagements in the Senior Leadership Forum	• Rebuilding and strengthening of the employee-employer relationships • Rebuilding trust and increased transparency through communication • Employee buy-in for changing the business model through a new strategy • Support for the Board's governance turnaround plan

STAKEHOLDER GROUP

FINANCIAL INSTITUTIONS & INVESTMENT PARTNERS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• Introduction of the new Board, sharing of a rescue plan for Denel and the governance turnaround plan • Engagement to rebuild and strengthen relationships, get buy in and support for the new strategy and turnaround plan • Liquidity challenge and its impacts on the business • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Update on the investigations of irregular expenditure, allegations of state capture and participation in the Zondo Commission • Introduction of the Group CEO and the new Denel business strategy	• Periodic financial sector road-shows led by Board Chairperson, Board members and Executive Directors • Local and international road shows to banks and investment community • Annual general meeting and other investor meetings • Government-led interactions between SOEs and the banking sector	• Increased levels of trust between the Board, new executives and the financial sector • Relationship rebuilt and gradually getting strengthened • Increased communication and transparency between Denel and the financial services community • Support for the governance turnaround and new business strategy

STAKEHOLDER GROUP

MEDIA ORGANISATIONS / JOURNALISTS

ISSUES	ENGAGEMENT METHOD	OUTCOMES
• The appointment of a new Board of Directors and development of a governance turnaround plan • Progress on the turnaround plan in relation to disciplinary processes against implicated executives, termination of irregular appointments and procurement. • Introduction and profiling of the new Group Chief Executive Officer (GCEO) • Liquidity challenge and its impact on the business • Government's guarantees to Denel	• One-on-one meetings with journalists and editors • Media interviews, statements and responses	• Positive shift in perceptions around the image and reputation of the company • Inroads made in the process of rebuilding Denel reputation and restoring trust will continue into 2019/20 FY

MATERIAL ISSUES

IDENTIFY

- Issues at divisional exco
- Group board meetings
- Stakeholder engagements
- Risk management

PRIORITISE

- Based on risk and opportunities
- 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 Compact
- Monitor against performance targets

IDENTIFYING MATERIAL ISSUES

Denel designs, develops and offers defence and security solutions and services to the South African National Defence Force, 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 it 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 sub-systems and to deliver to its customers. Defence contracts are generally complex and of 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.

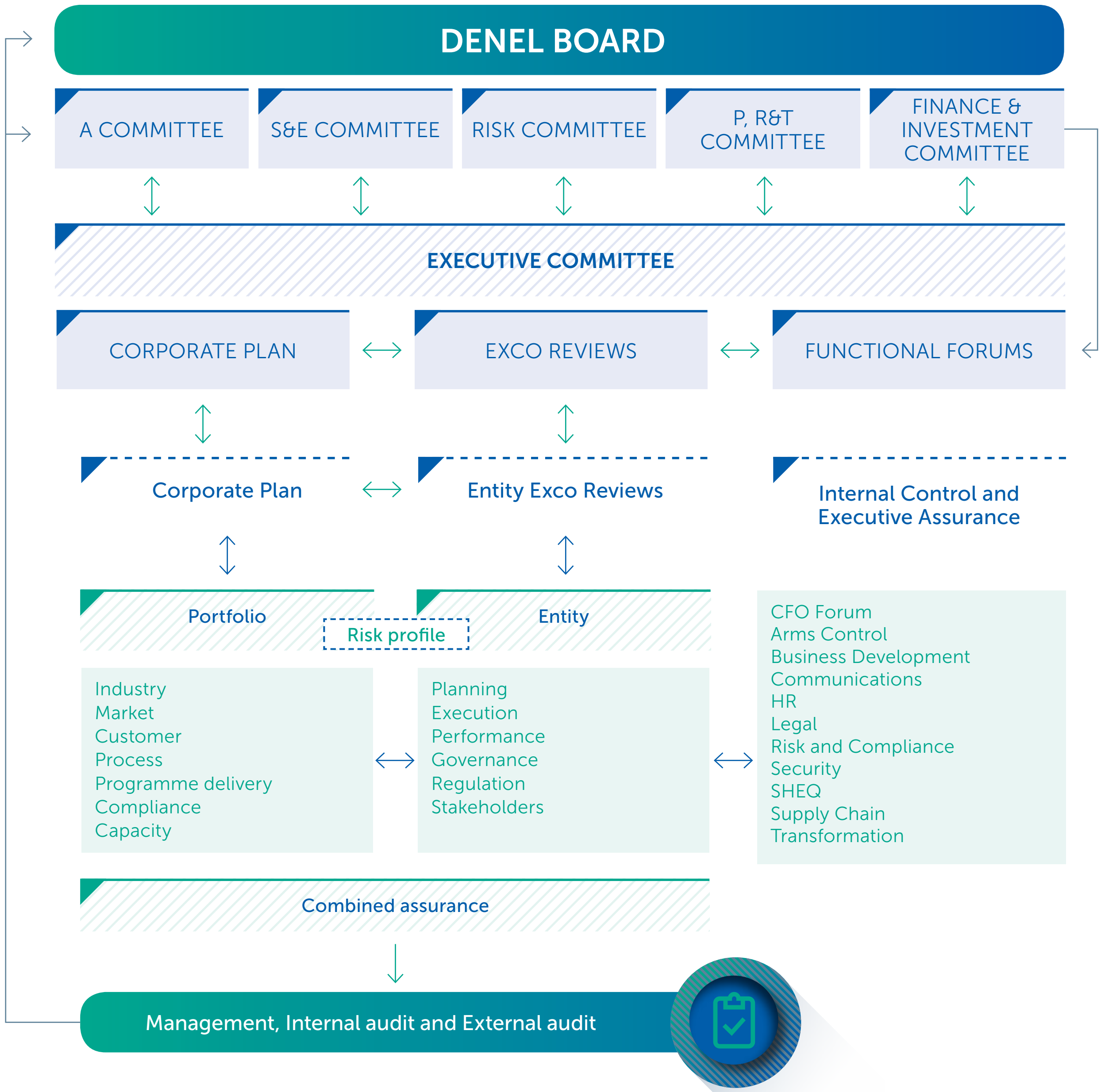
Denel has also adopted ISO9001 and ISO14001, OHSAS18001 on which quality, OHS safety and environmental management systems are based as part of the risk management system. IT risks are addressed through the IT governance framework and policy and managed at business unit level.

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, S&E, Finance and Investment and PR&T 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 investments in projects that deliver returns for the shareholders, efficient human capital that builds and maintains critical skills, a motivated workforce and provides assurance regarding the effectiveness of internal control.

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

The integrated risk management model is illustrated below:



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 group Exco's risk assessments to develop the group strategic risk profile.

Biannually, the Exco 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 its objectives.

Denel has put processes in place to assess risk and implement mitigation measures with regards to acquisitions and disposals, new opportunities, regulatory changes and investment projects. 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 83.

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:

	RISK	IMPACT	MITIGATION
1	Solvency and liquidity: weak Balance sheet and high working capital	• High cost of capital • Cash constraints	• Rightsizing and cost optimisation • Stringent working capital management • Programme management oversight • Short-term and long-term funding strategies • Governance turn-around
2	Security of supply: Critical and dependable suppliers to the production line becoming financially non-viable	• Weak industrial base, • High cost of re-industrialisation	• Contract management • Business restructuring
3	Critical skills: Shortage of critical skills/inability to attract and retain critical skills and keep employees motivated	• Loss of corporate memory • Loss of capacity to deliver • Loss of technical know-how	• Skills acquisition and retention strategies • Transformation and climate improvement plans
4	Employee morale:	• Poor performance • Disputes • Industrial action	• Employee engagement plans • Communication strategy
5	Lack of commercial culture which impedes Denel's competitiveness	• Loss of opportunities • Inability to compete	• Practical exposure to significant transaction and international business
6	Programme execution: Not delivering on time, cost and specification	• Cost overruns • High stock levels • Cash shortages • Bad reputation	• Dashboards to improve monitoring and oversight of programmes • Improving supply chain cost efficiencies • Continuous assessment of the value chain to improve efficiencies in programme execution
7	Supply chain: Cumbersome and inefficient supply chain process	• High cost of procurement • Slow procurement • Slippages on programmes	• Continuous assessment of the value chain to improve efficiencies in supply chain
8	Legal and regulatory non-compliance: Breach of legal and regulatory requirements	• Punitive action • Bad reputation • Loss of permits and licences • Call of guarantees and loans	• Compliance system to monitoring and ensure compliance with key legislation and debt covenants
9	Reputation risk: Impropriety and breach of governance	• Loss of stakeholder and investor trust • Inability to attract funding and new business	• Stakeholder management • Communication strategy • Investor/funder road shows • Implementing governance turnaround plan
10	Fraud and corruption: collusion, fraudulent invoices, scams, abuse of supply chain, conflicts of interest	• Loss of value • Bad reputation	• Fraud prevention strategy • Whistle blowing programme • Employee ethics 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 lifecycle of pre-proposal, proposal, design, development and execution at each business unit. The process includes high levels of project risk management.

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Business specific risks are strategically integrated within business units to ensure risks are attended to at source. During the year under review Denel put an emphasis on bid reviews and interrogating 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 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.

EXTERNAL ENVIRONM
AND STRATEGY

PART 4

EXTERNAL ENVIRONMENT AND STRATEGY

EXTERNAL ENVIRONMENT AND STRATEGY

LOCAL ENVIRONMENT

The local customer remains our most important partner and comprises 49% of Denel's current revenue stream. The local client base assists in key product developments which Denel leverages when pursuing foreign business initiatives. The current defence and security budget has reduced to 0.9 % of GDP which is low compared to international norms which is around 2,5% of GDP. Whilst 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 Defence Review 2015 policy document provides the policy framework for the strategic alignment between the DoD/SANDF and Denel as state entities.

EXPORT ENVIRONMENT

Overall global military spending rose by 1.1% to $1,739 billion in 2017, according to the figures collated by the Stockholm International Peace Research Institute. In 2018 the USA and China accounted for half of the world's military spending. Countries also feel some pressure to keep pace with China's rapidly growing military investments.

Three decades of growth in military spending in Asia and Oceania continues. Military expenditure in Asia and Oceania has risen every year since 1988. The tensions between countries in Asia as well as between China and the USA are major drivers for the continuing growth of military spending in the region.

The engines of growth in military expenditure between 2008 and 2017 were in non-Western parts of the globe. The Middle East was the region with the strongest growth rate, at 7.2%, followed by Asia at 4.3%. While sub-Saharan Africa experienced 3.9% growth over the ten-year period, it has slowed in recent years.

India has joined the United States and China as one of the world's five biggest military spenders this year, as the balance of military spending shifts further towards Asia. The reasons for India's substantial rise in defence spending are many as there are increased geopolitical tensions within Asia, including the need for self-defence against any possible attack from North Korea.

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 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 the business development in these markets.

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

GOVERNANCE
Strengthen governance to rebuild trust from stakeholders

CAPITAL STRUCTURE
To resolve balance sheet weaknesses so we can invest in R&D and CAPEX

COST
To renegotiate onerous contact; improve programme Execcution

COST
To improve supply chain effeciencies to be competitive

COST
To restructure and reduce our cost base

ORDER BOOK
To build and grow a profitable order book

ORDER BOOK
To strengthen strategic partnership; foster stakeholder alignment

PROGRESS AGAINST THE STRATEGY

KEY STRATEGIC INTERVENTIONS

- **Commercial** mind-set
- Appointment of the **right calibre leadership** on the highest levels
- Exploiting Denel's property portfolio to reduce space and optimisation/sale of properties
- Consideration of **strategic partners** in selected Denel products, capabilities and business units
- Investigate options to **exit from loss-making and non- core** businesses
- **Restructure and optimise fixed cost base**
- Implement **supply chain optimisation** programme
- Complete **governance and compliance** turnaround

STRENGTHENING MEDUIM TERM ORDER COVER	STRENGTHENING BALANCE SHEET	ENHANCING OPERATING PERFORMANCE AND REDUCE COST BASE	REBUILDING REPUTATION	GOVERNANCE
• Advanced cardinal campaigns • In advanced discussions with Armscor to reset Hoefyster • Convert order-pipeline of R40bn	• Re-financed R3.2bn of debt • Government guarantee increased to 5-years • Applied for recapitalisation from NT • Sale of non-core and loss making assets • Appointment of Transactional Advisor	• Implementing supply chain optimisation programme • Reduce space and property optimisation • Launched internal continuous improvement redesign action plan • Restructure and optimise fixed cost base including VSP	• Key customer visits, positive press coverage • Appointment of right calibre leadership on the highest level • Roadshow with investors and banking community	• Appointment of new board and executive • Clean-up an re-enforcement • Clearance of AG audit findings

PROGRESS ON STRATEGY

STRATEGIC CHALLENGES	STATUS
POOR Governance Practices & Financial Management	• **HUGE** Improvement in **GOVERNANCE**
POOR Programme Execution	• New **GCOO** and Divisional **CEO's** focused on improving **PERFORMANCE**
ERODING Capability Base and DECLINING Technology Access	• Organisation being **STABILISED**
LIMITED Market Access and DECLINING order book	• Improved **ORDER INTAKE** and **LARGEST EVER EXPORT ORDER** imminent
UNSUSTAINABLE Cost Base	• R500m costs reduction over last 12 months
SEVERELY CONSTRAINED Liquidity	• Improving Liquidity
HIGH Debt	• Awaiting **RECAP** to normalise Capital Structure • Disposal of non-core assets and securing SEP's gaining momentum
UNFOCUSED & FRAGMENTED Operational Structure	• New Operational Structure 99% Finalised and Implemented
DEMORALISED Employees	• **MORALE** Improving
ANGRY Suppliers & Customers	• Actions to Improve identified
MISALIGNED Stakeholder Environment – DoD – DPE – NT, other	• Better Alignment through regular consultation

PERFORMANCE REVIEW

PART 5

PERFORMANCE REVIEW

CEO'S REPORT

Denel has reached a critical stage in its transition towards an organisation that is, once again, widely respected in the global and international defence and technology industries and a valuable public asset that the entire South Africa can be proud of.

At the core of this process is our efforts to restructure the business through the implementation of a comprehensive turnaround plan, build on our long-standing reputation as a leader in innovation, restore confidence in the leadership of the company, and build a committed and motivated employees.

South Africa has embarked on a new journey to revitalise its economy, create jobs and economic opportunities and attract investment in key industries, especially related to infrastructure and technology. As one of the leading economies in Africa, the country shall contribute in steering the continent towards the 4th Industrial Revolution.

The country – and the continent – needs a company such as Denel with its strong commitment to innovation, its ability to attract the best and brightest minds and its long track record of performance in some of the most competitive sectors of the global economy.

There can, however, be little doubt that the reputation of the company was badly affected by the revelations regarding state capture and the evidence regarding corruption, mismanagement and poor corporate governance that have emerged in recent months.

We have committed ourselves to actively support all official investigations that have been launched to uncover the truth and have already taken decisive steps against proven transgressors, including legal steps to recover funds that were misappropriated.

FINANCIAL POSITION

The decline in our reputation has also had a draining impact on our financial position. This is reflected in the Integrated Report which shows a 36% reduction in revenue during the 2018/19 financial year which can mostly be attributed to a slowdown in operational activity. In addition, the financial results for 2017 and 2018 have been restated.

Our balance sheet is over-indebted to the value of R3.4bn. However, our debt profile improved following the decision by our shareholder to increase the government guarantees to five years. A further guarantee of R1bn extended to Denel in April 2019 has been provided by the shareholder.

The gross loss of R614m can be primarily attributed to under recoveries as a result of liquidity constraints. The net loss of R1 749m was impacted by net interest expense of R340m but it was cushioned by improved profits from associate companies, Rheinmetall Denel Munitions and Barij Dynamics.

The net loss includes a R389m provision for the exit of Denel Aerostructures' manufacturing contract as well as late delivery penalties on Phase 2 of Project Hoefyster (R65m).

FUTURE PROSPECTS

Our medium term projection in terms of the Corporate Plan shows a moderate growth in revenue from R3.86bn in 2020 to R5.54bn in 2021 and R7.14bn in 2024.

The cost competitiveness of the export markets makes it imperative for Denel to consolidate its product portfolio, reduce the cost base, enhance efficiencies in programme execution and improve the management of working capital. An in-depth review of cost structures is under way to identify areas for cost reductions and explore initiatives that will lead to improvements in liquidity.

During the year we submitted a request to government for R2.8bn for the recapitalisation of Denel and received R1.8bn in August from the shareholder. This represents a tremendous display of confidence in the underlying value of the business and a realisation that Denel is still uniquely placed to support the local defence and security sectors and has the potential to play a leading role in the country's transition towards the 4th industrial revolution.

Denel has secured a solid order backlog of R18bn which covers roughly four years of sales revenue. In addition, we are pursuing a winnable order pipeline of R30bn over the next 24 months. Should these contracts be realised it will provide us with a solid base to secure our corporate plan.

We continue to interact with note holders to increase the terms of commercial papers and bonds issued. We also extend our appreciation to financial institutions that provided Denel with bridging finance to enable the company to pay salaries and benefits during the recent liquidity crunch.

The Auditor General had made a number of negative findings in its evaluation of Denel's financial statements for the 2017/18 financial year. Corrective actions continue to be implemented on issues raised by the Auditor General and in some cases the processes have already been concluded. Whilst in 2018/19, Denel has received a Disclaimer audit opinion. We will continue to implement the improvement plan in order to correct this in the future.

In support of our financial restructuring, we are able to exit onerous contracts to the value of R250m, reduced operating costs by R500m and reduced head office costs by R15m. Further reductions in operating costs will be achieved in the coming year through the enhancement of our supply chain processes.

There is a real potential to generate cash through divestment of non-core assets to the value of R1.56bn. A further R2bn in cash will be generated from strategic equity partnership activities.

The new business strategy also introduces measures to move the company away from its heavy reliance on debt and to achieve sustainable growth. This will include steps to increase competitiveness, renegotiate onerous contracts and grow a profitable order book.

This will ensure the long-term sustainability of Denel and ensure its ability to remain Africa's leading manufacturer of defence and security-related products and systems.

TURNAROUND STRATEGY

Denel recognises the fact that it needs the support of all stakeholders, including customers, suppliers and employees to achieve a complete turnaround.

It should be emphasised that Denel continues to enjoy an excellent reputation among our international customers and technology partners, in key target markets despite the concerns that were raised about past corporate governance issues. Our products, services, systems and human capital are still regarded as among the best in the global industry and our leadership in areas such as landward defence, armoured vehicles and missile technology is widely respected.

This provides us with a strong foundation on which to market our products in key markets, especially in the Asia-Pacific Region, the Middle East, North Africa and on the rest of the African continent.

> **The goodwill towards Denel is also evident in our relationships with key local customers and partners, especially the SA National Defence Force, the Department of Defence and Military Veterans, Armscor and the SAPS.**

Since we announced our intentions to extend our partnerships and divest from some of the non-core assets, we have received expressions of interest from more than 40 international and local defence and technology companies who are considering partnering with us or acquiring parts of the business.

This positive sentiment is strengthened by the visible support that Denel has received from our shareholder including a commitment to the recapitalisation of Denel under certain conditions. This offers future investors the potential for excellent returns on investment and will enable the company to improve its liquidity position.

We are confident that the political will exists to unlock the Hoefyster programme and that we will be able to deliver effectively on a contract that is of the utmost value for both the local defence industry and the security of the country.

KEY MILESTONES

We intend to build on our solid reputation for quality and innovation in key areas, most notably long-range artillery, infantry combat vehicles, turret systems, missile technology and unmanned aerial vehicles.

Several of Denel's divisions and business units achieved significant milestones during the financial year, despite the challenging environment:

- Denel Aeronautics completed the first phase of the Rooivalk cannon reliability improvement study;
- Denel Dynamics conducted the final flight testing on the Orca weapon system;
- Denel Land Systems achieved major milestones on the delivery of combat turrets and integrated weapon systems for the Malaysian armed forces;

- Mechem participated in several mine-clearing operations on behalf of the United Nations Development Programme and other humanitarian organisations;
- The Denel Overberg Test Range provided in-flight test services on behalf of the SANDF as well as for the very successful qualification of the A-Darter missile;
- Denel PMP launched the iNkunzi Strike during the Africa Aerospace and Defence Exhibition 2018;

COMMITTED WORKFORCE

Our management team has been significantly strengthened through key senior appointments. Since my arrival at Denel in early 2019, I have been impressed by the quality of leadership across the spectrum of Denel's business activities. We have subsequently been able to fill vital positions in group operations, human capital and finance and at the some of the newly restructured business divisions. We are actively working on an improved commercial and performance culture.

Denel remains an attractive employer for professionals who want to be at the cutting edge of research and development. We have started to rebuild relationships with research and technology institutes like CSIR and Universities. While we acknowledge the inconvenience suffered by employees because of the late payment of salaries and benefits, which can be attributed to our liquidity position, we have still retained a solid skills base of 620 development engineers and 1740 technicians and our current work force has an average of 15 years' work experience.

I have no doubt that Denel can remain the employer of choice for professionals in the defence, technology and advanced manufacturing fields and that we will be able to attract, train and retain some of the brightest minds in South Africa to enable a sustainable future for the company.

GOVERNANCE

We have initiated several forensic investigations into alleged fraud and misappropriation of funds that occurred under the watch of the previous board and management. Several reports were already submitted concerning improper transactions, irregular appointments and potential fraud. These reports were referred to independent legal firms to review the evidence and advise Denel on the implementation of the recommendations.

We welcome the judicial commission of enquiry into state capture and cooperates fully with Deputy Chief Justice Zondo and his investigative team to uncover failures of governance at Denel, bring perpetrators to book and recover misappropriated funds. In addition, the President has published a proclamation to enable the Special Investigative Unit to conduct probes into alleged maladministration and unlawful expenditure.

We are grateful to the shareholder for its continued support for Denel during one of the most difficult periods in its history. The decisions to extend guarantees and commit funds for recapitalisation should be seen as support for the quality of our turnaround strategy and a commitment to the future of a strategic asset.

I want to extend a word of appreciation to the Minister of Public Enterprises, Mr Pravin Gordhan, for his strategic guidance. Denel continues to value our close relationship with the Department of Public Enterprises, the Department of Defence and Military Veterans, the South African National Defence Force, Armscor and the wide range of stakeholders in the defence and technology sectors. We also welcome all opportunities to engage with Parliament through our interactions with the respective standing committees.

The Board of Denel under the leadership of Ms Monhla Hlahla has played a vital role in the steps taken to halt the downward trajectory and provide leadership on our new turnaround plan. The fundamental and much-needed changes that are required to stabilise Denel will not take place without the support of our capable and loyal workforce. I again apologise for the uncertainties and hardships that were caused to employees resulting from our constrained liquidity position.

TOWARDS A FUTURE STATE OF DENEL

The process to establish new partnerships, dispose of non-core assets and restructure the remainder of Denel will gather momentum over the next 12 months. Some of the existing divisions will be clustered to leverage turnaround solutions and achieve greater economies of scale.

The Board has approved a new governance framework while management has identified a list of capabilities and developed the criteria that will be used to evaluate proposals.

A multi-disciplinary team under my leadership was appointed while some pre-notifications in terms of the Public Finance Management Act have already been submitted.

The process will take place in close consultation with the Department of Defence, Armscor and other critical stakeholders. The shareholder environment will be kept fully informed throughout all stages of the process with full compliance to PFMA requirements.

We strongly support the current initiatives by government to create a capable state and to ensure that well-run and well-capitalised state-owned companies play a vital role in job creation, training, skills development and infrastructure delivery. Denel is – and will remain – a critical cog in this process and a valuable national asset. Our objective is to move beyond the failures of corporate governance that characterised the company in recent years and to build a credible, profitable and long-term sustainable company which all South Africans can be proud of.

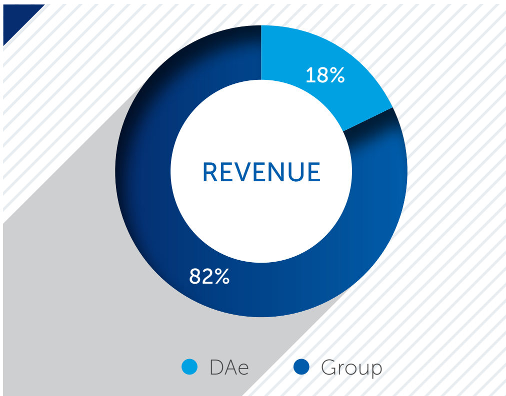
Danie du Toit
Group Chief Executive Officer

OPERATIONAL REVIEWS

DENEL AERONAUTICS

- Successful implementation of manpower optimisation within the division and the group, through secondments.
- Despite the business challenges in the execution of major contracts, relationships with key customers remain strong.
- The development of a new strategy to reposition Denel Training Academy, increasing its service offering to incorporate trade testing.
- Aeronautics continued to ensure availability of aircraft for the SAAF as primary customer and other defence forces on the African continent and beyond. Denel managed to deliver nine Oryx and two Rooivalk helicopters, the backbone of the rotary wing aircraft assets.
- In partnership with Safran Helicopters Engines South Africa, Denel secured additional non-EASA military engines from the African continent for MRO.
- Completed the first phase of the Rooivalk cannon reliability improvement study in conjunction with other Denel divisions and subsidiaries (Denel Vehicle Systems and Denel Land Systems).

CONTRIBUTION TO GROUP REVENUE 2018/19



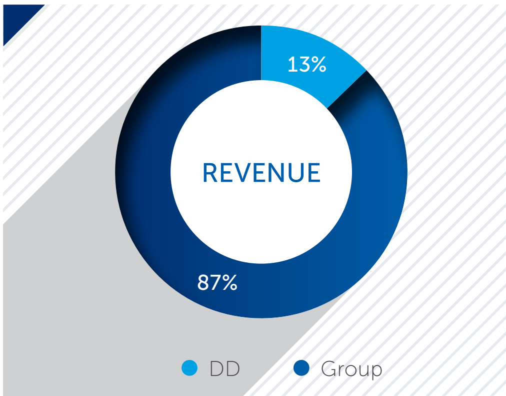
	2018/19 Rm	2017/18 Rm	Var %
Revenue	833	1 107	(25)
Export revenue	209	466	(55)
EBIT	(696)	(120)	480

920 employees

DENEL DYNAMICS

- The final delivery of the 1 000 weapons on the **MBARC** contract was achieved at the end of April 2018 after which the settlement agreement on the contract was signed. The final payment was made in August 2018. This was a milestone achievement that contributed to an upswing in Denel's financials.
- **A-Darter:** The Missile Front Section (MFS) Final Qualification Review has been finalised and approved.
- **KAMAS:** 36 Production LERUs (Launcher Electronic Relay Units) have been completed and shipped to Marvin Engineering Company as part of the Kamas Launcher Project.
- **SHERQ Management:** During the period under review, Denel Dynamics updated its SHEQ management system, and successfully managed the transition to two new management system standards, namely ISO1400:2015 for environmental management and EN9100:2016 for Quality Management.

CONTRIBUTION TO GROUP REVENUE 2018/19



	2018/19 Rm	2017/18 Rm	Var %
Revenue	542	1 250	(57)
Export revenue	271	720	(62)
EBIT	(419)	(281)	49

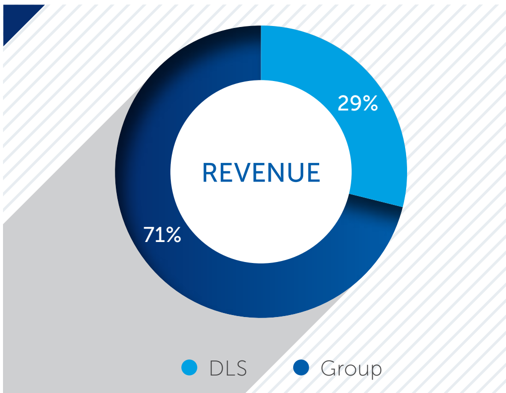
623 employees

DENEL LAND SYSTEMS

The following highlights/achievements were achieved despite some challenges:

- A comprehensive technical progress assessment, with Armscor and Denel Land Systems engineers, was done for the current variant of the Badger. The weighted average technical compliance to segment and product specifications were determined as follows – Section Variant (86%), Fire Support Variant (87%), Missile Variant (85%), Command Variant (82%) and Mortar Variant (78%). Section Variants pre-production models (PPMs) were successfully assembled and underwent a successful operational test and evaluation (OT&E) at De Brug in Bloemfontein. Plans are under way to re-establish Section Variant mature product baseline (PBL) within the first few months of the 2019/20 financial year. Revised PBL, for the Fire Support and Command Variants are planned to be done shortly thereafter. About 87% of development programme deliverables have been successfully concluded and accepted by Armscor, with the remaining work related mainly to integrated ,logistics support (ILS). Badger platform industrialisation assessment and preparation are in process with Denel Vehicle Systems (DVS) to ensure on time delivery of battalions based on a proposed new delivery schedule.
- Achieved major milestones with AV8 programme with delivery to the Malaysian client of 50 of the LCT30 light combat turrets, 28 of the anti-tank guided-weapon turrets (ATGW), 28 of remote-controlled weapon station turret (RCWS) systems and 150 of the Ingwe anti-tank missiles. Delays incurred due to liquidity issues, however, affected the export revenue realised for 2018/19.
- The local artillery upgrade programmes (Muhali and Topstar) are progressing well with the establishment of the product baseline on Topstar. A proposal for the Topstar production has been submitted with a contract due in May 2019. The first two phases of Muhali have been completed with the product baseline being established.
- Significant progress was made on maturing various artillery opportunities that will form the backbone for medium- and long term business in Denel Land Systems.
- Mechem cleared just more than 11 000 anti-personnel mines in Turkey and the customer (UNDP) has confirmed an extension of phase 2 of the project.
- Successful installation and completion of a Military Image Interpretation Computer Systems (MIICS) and associated training system for the SAAF (Project Achilles) in the Joint Air Reconnaissance Intelligence Centre (JARIC) at AFB Waterkloof. There is a continuous focus on improved efficiency combined with human capital development. All engineering capability was combined into a single department to position the division for short- and medium-term growth. Achilles was contracted at cost through exceptional programme and engineering management. It was delivered in time, within budget and at the quality the SAAF expected. This is an achievement of note, in the current environment.
- The follow-on contract has been awarded to ISS on Project Fellowship (GBADS). The acquired baseline was established during the first phase (concluded in 2017) of the development. This current contract will focus on a one-of-type development up to system verification and validation. The last development phase (still to be contracted) will focus on the population of the complete system.
- There is appreciation for the significant support received from the DOD and the SANDF for their understanding of the challenges faced by Denel Land Systems due to liquidity and operational challenges.

CONTRIBUTION TO GROUP REVENUE 2018/19



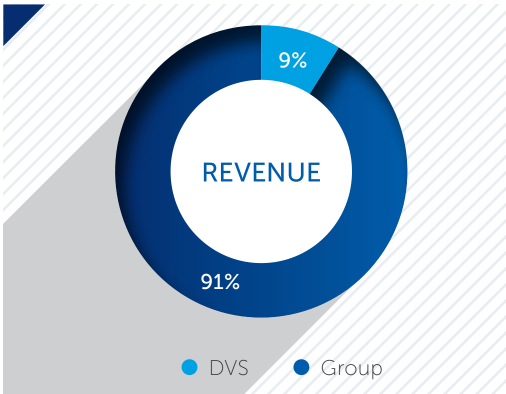
	2018/19 Rm	2017/18 Rm	Var %
Revenue	1 516	2 021	(25)
Export revenue	1 018	1 502	(32)
EBIT	(425)	(411)	3

626 employees

DENEL VEHICLE SYSTEMS (PTY) LTD

- Deepening liquidity constraints during the financial year impacted on project execution and significantly contributed to the losses incurred for the year. The liquidity crisis is further contributing to under-recoveries as labour cannot be fully utilised due to material shortages.
- Increased focus is placed on improving supply chain compliance and governance with the ultimate aim of reducing irregular expenditure.
- The last ten N35 vehicles, on the current contract, have not yet been sold, due to the impact of the liquidity crisis. This is also holding back the sale of the material and work-in-progress of the last thirty N35 vehicles.
- Product support business, which has historically been the better contributor to profitability, has reduced on the back of customers cancelling orders and loss of market share on because of our inability to execute against orders. The most significant negative impact on spares sales came from the cancellation of orders by a major long-standing international customer. Orders placed by Armscor/DoD have also not been at the levels foreseen, although no cancellations have yet been received.
- The completion of the RG12 Mk6 prototype vehicle for a UAE customer has been severely delayed by the liquidity crisis and the customer is threatening with contract cancellation further jeopardising any follow-on contract opportunities.
- Denel Gear Ratio has seen a reduction in spares and repair sales and this contributed to poor delivery performance to critical customers.
- Denel Gear Ratio was successfully qualified to be a supplier of pinions through a First Article Inspection process for the Transnet's 1 064 locomotives project. The business unit is in process to qualify for the gear wheel rims.
- The Denel Mechatronics' Remote Camgun 30 mm (RCG30) was successfully demonstrated in the UAE and an invitation to the official UAE Summer Trial is expected.
- DVS was invited to partake in the 2019 Kingdom of Saudi Arabia Summer Trials with the RG31. The RG31 will be one of five or six vehicles contesting for a 1 000+ vehicle opportunity in the Kingdom.
- An upgrade package was developed for the current Samil fleet, which could extend the life of the fleet in case Project Palama (the replacement of all Samil trucks) does not realise in the short to medium term.
- A follow-on order was received for Self-Defence Remotely Operated Weapon Systems (SD-ROWs) on the back of a successful delivery of ten units in the 2018/19 financial year.
- DVS successfully completed the surveillance audit for ISO 9001 and 14001, and OHSAS 18001 for the Denel Gear Ratio business unit. Preparations are in process for the Denel OMC and Mechatronics audit due in May 2019.
- The business has retained its Preferred Trader Status accreditation with SARS.

CONTRIBUTION TO GROUP REVENUE 2018/19



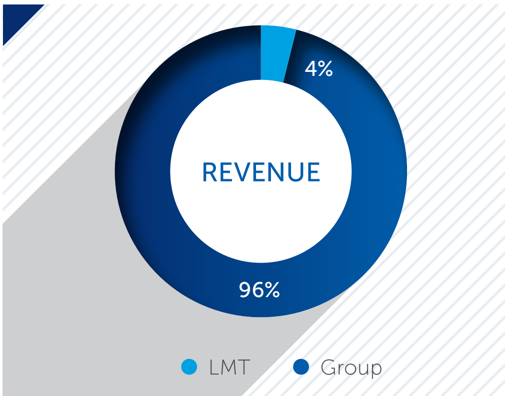
	2018/19 Rm	2017/18 Rm	Var %
Revenue	350	794	(56)
Export revenue	195	506	(62)
EBIT	(217)	(47)	364

466 employees

LMT HOLDINGS SOC LTD (RF)

- Continued to supply LM13 vehicles to SCC under most difficult financial circumstances
- > 90% critical skills retention rate
- ISO9001:2015 certification
- First apprentices completed their apprenticeships and successfully qualified as welders
- LMT was able to develop a LM16 Prototype vehicle
- The company was able to pay salaries every month, despite very difficult financial times
- LMT maintained LTIFR of 1 for the financial year

CONTRIBUTION TO GROUP REVENUE 2018/19



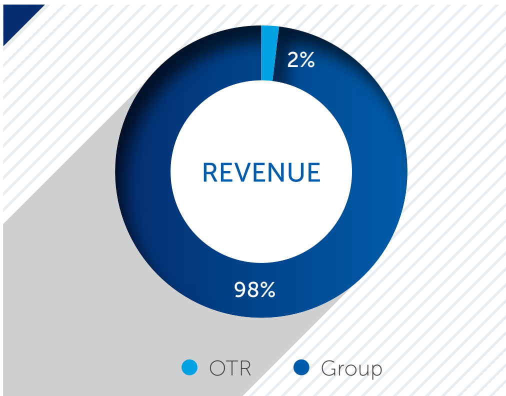
	2018/19 Rm	2017/18 Rm	Var %
Revenue	151	1 250	(11)
Export revenue	137	-	
EBIT	(34)	89	49

93 employees

DENEL OVERBERG TEST RANGE

- Provided in-flight test services to the SANDF in terms of a multi-year contract with the DoD&MV. A highlight was the qualification of the A-Darter missile. OTR supported the A-Darter qualification flight tests during the four different phases over a period of ten months;
- Provided essential support to Denel Dynamics, Denel Vehicle Systems and RDM for various in-service and development tests;
- Conducted tests for two established international clients namely an air defence test for SAAB as well as support to the Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO) for its third Training Cycle of the On-Site Inspection Inspectorate Training Programme;
- Continued with a down-scaled technology renewal programme focused on upgrading and maintaining capabilities to meet client requirements, including the integration of new infrared cameras onto the cinetheodolite instruments as well as the implementation of a new upper air sounding system. Replacement of various tracking radar subsystems is underway;
- About ten kilometres of the border fence, that was damaged during a veld fire, has been replaced; and
- Received a certificate of registration for satisfying the requirements of ISO 9001:2015 Quality Management Systems as issued by the SABS for "the provision of military and commercial testing services". The certification is valid until 8 July 2021 with yearly surveillance audits.

CONTRIBUTION TO GROUP REVENUE 2018/19



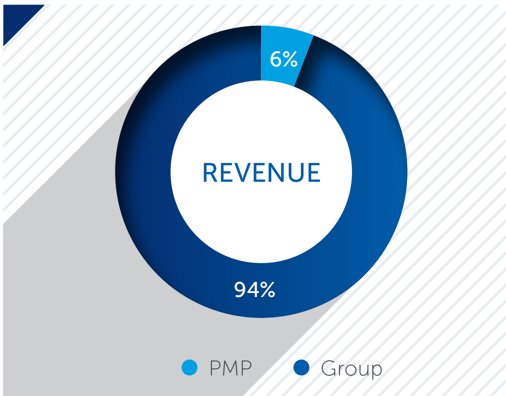
	2018/19 Rm	2017/18 Rm	Var %
Revenue	94	96	(3)
Export revenue	14	21	(34)
EBIT	3	2	99

144 employees

DENEL PRETORIA METAL PRESSINGS

- Denel PMP launched the iNkunzi Strike during AAD 2018. This is a belt-fed 20mm x 42 weapon system that follows the successful market entry of iNkunzi PAW, a hand-held system, which is currently in production. The iNkunzi family offers a unique cost effective solution to both symmetric and asymmetric warfare applications. The PAW has seen export growth and the Strike is poised to make a significant operational impact. The 20mm x 42 suit of ammunition is also in use by Truvelo (a local RSA company) sniper rifle, which is also in production.
- In collaboration with Nammo (a European-based global company) and Reutech Defence (a local RSA company), PMP successfully held a demonstration at Murray Hill for SA Special Forces in March 2019. The iNkunzi weapons family were in demonstration. Also demonstrated was Nammo's M72 rocket system. The terminal effects of the multi-purpose 12.7mm and 20mm ammunition, an outcome of the PMP and Nammo Collaboration dating more than five years, was also demonstrated. This positive outcome has been the realisation of sales and will continue. An example of this is the current SAAF order for 20x139mm multipurpose ammunition that will be assembled (LAPPED) at PMP.
- Denel PMP also succeeded in qualifying for SABS recertification on the ISO9001:2015 quality management system, ISO 14001:2015 environmental management system as well as OHSAS 18001 safety management system during the year under review. The importance of the qualification is a crucial benchmark as both the environmental and safety systems are operational to ensure that Denel PMP employees have a safe and environmentally friendly work milieu.
- Denel PMP hosted an oversight visit by the Department of Public Enterprises in November 2018. This is part of a regular interaction by the Shareholder department to familiarise itself with operational issues and get an in-depth understanding of the challenges faced by the operating divisions and contextualise communicated plans for the future.

CONTRIBUTION TO GROUP REVENUE 2018/19



	2018/19 Rm	2017/18 Rm	Var %
Revenue	225	444	(49)
Export revenue	71	216	(67)
EBIT	(213)	(154)	38

893 employees

FINANCE REVIEW

Revenue down by **36%**

51% Export revenue

Operating loss **R1.9bn**

Strong order book of **R18bn**

Interest Expense **R374m**

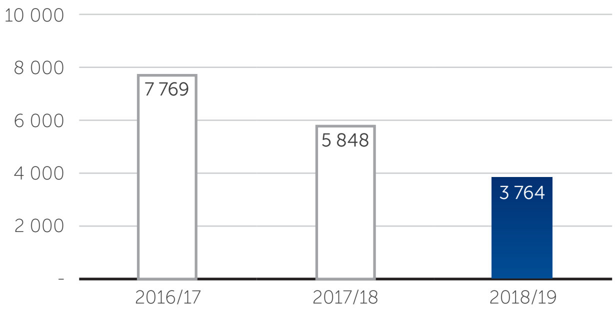
Maintained investment grade credit rating

Debt to equity **-2.05:1**

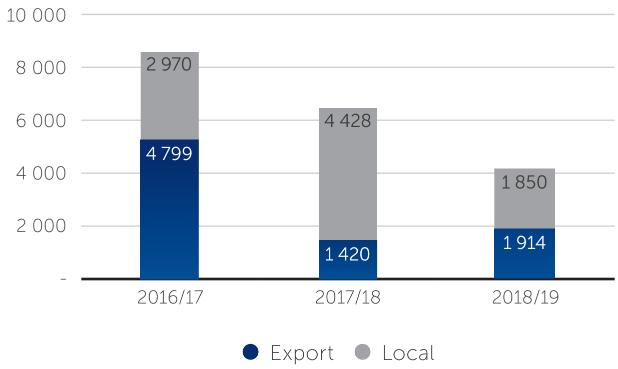
OVERVIEW

Revenue of R3.76bn is at its all-time low in 2018/19 this being a result of low activities at the operations. This driven by the liquidity constraints as Denel battled with low funds to meet all its operational requirements in 2018/19. This impacted the payment of suppliers, therefore on time deliveries to customers. Export sales decline by 19% due to the conclusion of a major contract in the Middle East.

REVENUE Rm



REVENUE SPREAD Rm



Operating loss of R1.9bn was driven by the gross loss of R614m driven by the contract losses and reduced sales leading to cost under recoveries. The loss further includes the provision for the exit from the DAe Airbus contract. As at 31 March 2019, the negotiations were at an advanced stage and as such it was probable that the exit will occur.

Given the decision to exit the Airbus contract and the exit from the Aerostructures business, management reviewed the investment in the business included in the separate financial statements and impaired investment (R634m) in full. This was based on the negative equity in that business as at 31 March 2019.

Management performed an impairment test on Denel Vehicles Systems and impaired the remaining goodwill of R33m. Management considered the business cash flows which has altered dramatically due to the liquidity challenges as the fact that some of the synergies expected on acquisition had not materialised.

Net financing costs continue at high levels in R340m (2017/18: R306m restated) as Denel continues to rely on debt to finance its operational costs. Continued engagements with lenders are ongoing and positive. These include a different funding model in particular with regards to ring fencing funding of major projects.

The net loss of R1.7bn was R696m higher than the previous year driven primarily by the decline in revenue. This was negated by the 88% increase on income from associates compared to the prior year R425m (2017/18: R226m). This was sustained by a significant increase realised from the profits earned by Barij Dynamics.

Total assets have decreased to R8.6bn (2017/18: R11.2bn) driven mainly by the decrease in cash and cash equivalents R575m (2017/18: R1.3bn) as well a decrease in contract assets R734m (2017/18:R1.7bn) and trade and other receivables R832m (2017/18:R1.4bn). This was in relation to the decreased production and revenue generation.

The total liabilities has decreased by R533m to R10.2bn (2017/18: R10.8). The increase diminished driven by the decrease in prepayment received. The debt is fully guaranteed by the government of South Africa who bares the risk of default in repayment of this debt. The borrowings profile was made up primarily of all current debt as the guaranteed debt matured in September 2019. As at 31 March 2018/19 Denel was insolvent by R1.7bn. This was driven by the losses of 2017/18 and 2018/19. Subsequent to year end, the shareholder approved and paid to Denel R1.8bn recapitisation in order to restabilise the business and improve the solvency position.

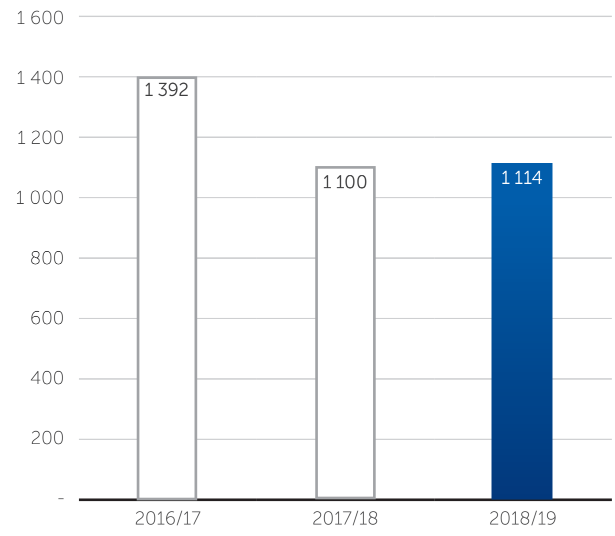
Disclaimer Audit opinion

During 2017/18, the AG issued a disclaimer audit opinion due to misstatement on several items. Denel has reviewed these transactions and were able to resolve the following findings:

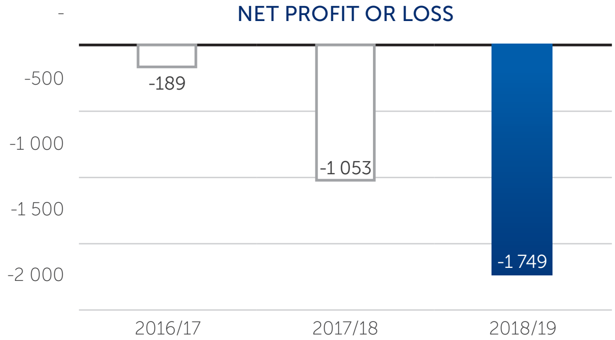
REVALUATION RESERVE

Prior to 2007, Denel transferred some of the assets that were previously recognised as Owner Occupied Property, Plant and Equipment (held under the cost model) to Investment Properties (held under the fair value model). This transfer was effected as the intention for holding these assets was no longer to owner occupy but rather to earn rental income from the rental of the property. At the date of transfer, the properties were revalued with the corresponding adjustment being posted to a "Revaluation Reserve" in Equity.

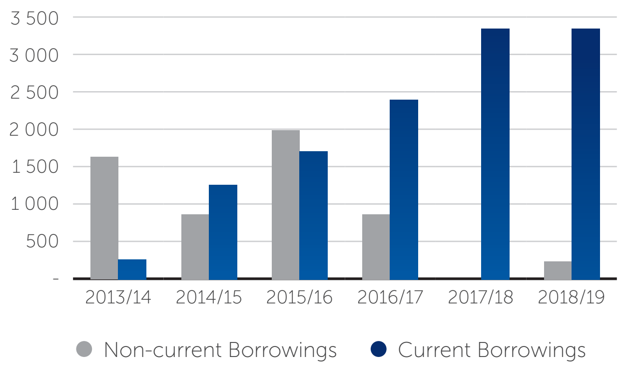
NORMALISED OPERATING EXPENDITURE Rm



NET PROFIT OR LOSS



TOTAL BORROWINGS



All subsequent fair value adjustments, after the transfer to Investment Property, have been recognised in Profit or Loss. There have been no amendments made as these transactions were treated correctly in Denel's books.

POST-RETIREMENT BENEFIT FUND

The medical trust was established in order to enable Denel to make post-retirement medical aid subsidy contributions to the medical scheme as an employer on behalf of employee beneficiaries.

Denel enjoys the benefits of the trust, in order to fulfil its obligation to employee beneficiaries, and is furthermore deemed to exercise control over the trust. Denel has recognised a net defined benefit asset as the plan is over funded as per IAS 19.

SITE RESTORATION PROVISION

As per IFRS 16, the cost of an item of property, plant and equipment should include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Denel had not capitalised the initial cost and subsequent changes in estimates in the provision for site restoration in respect of property accounted for as per IFRS 16. The recalculation of the impact affected the amount disclosed in property, plant and equipment and the depreciation.

The recalculation of the site restoration provision for all properties were corrected as errors were identified in the previous years' calculations.

Operating leases

This is in relation to insufficient audit evidence being provided to the auditors to support transactions relating to non-cancellable leases. These have been subsequently provided and the matter has been resolved.

In the current financial year, the AG 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 opinion and additional findings with respect to the 2018/19 as detailed in the Auditors report.

Several matters have been identified as the root causes for the audit opinion issued by the Auditor General.

During the year, Denel has:

- Acknowledged the root causes identified by the Auditor General resulting in the audit opinion issued and key actions for improvement include:-
  - Adequate documentation and testing of business processes;
  - Enhancing business tools of reporting in the business; and
  - Regular training of finance staff on accounting standards;
- Reviewed the policy dealing with the prevention, identification and disclosure of irregular, fruitless and wasteful expenditure and implemented changes;
- Further investigated all expenditure for the past three years to ensure that all irregular, fruitless and wasteful expenditure have been disclosed per legislation;
- Identified key appointment of relevant competent staff in finance with the relevant experience and expertise.

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. Denel has a track record of a sustainable business performance albeit at modest profit levels. This position is further supported by the substantial order book of Denel of circa R18.bn. The business focus going forward will be the implementation of the turnaround strategy in order to improve Denel's balance sheet. This includes:

- The sale of loss making and non-core assets;
- Implementation of ring fencing projects and prepayments from customers;
- Strengthen the balance sheet through cash injections from the shareholder to reduce reliance on debt and improve solvency
- Continued cost containment measures to reduce the fixed costs over time;
- Adopt stringent working capital measures to ensure cash containment at all times; and
- Strengthen the control environment to improve financial reporting throughout the group.

PERFORMANCE AGAINST THE SHAREHOLDER COMPACT

SIS STRATEGIC OBJECTIVES	KPAS	KPIS	FY2018/19 TARGETS	YTD ACTUAL	COMMENTS
Operational Excellence	Security of supply and retention of capabilities in areas required by the DoD & MV	Retained strategic capabilities in support of the DoD&MVs requirements as per register	100%	100%	
	Research and Development	Research and development investment	>R454m	R108.4m	Target not met due to liquidity constrains
	Programme Delivery	Achieving contracted cash flow targets on major programmes.	>85%	83%	Target not met due to liquidity constrains
		Achieving of cardinal milestones as contractually agreed by clients for selected major Programs	> 85%	72%	Target not met due to liquidity constrains
Sustainable Development	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	80%	83%	Target exceeded
		Women as % of total appointments	40%	58%	
	B-BBEE level	B-BBEE contributor level (new codes)	Level 4	Level 6	Retained 2018 score as 2019 audit delayed due to expiry date being 31 August 2019 and liquidity constraints.
	Preferential procurement and enterprise development (current baseline for women owned=1.3%)	Local Content	70%	64%	Actual local spend below target
		B-BBEE (% of recognised spend):	75%	71,5%	Retained 2018 score as 2019 audit delayed due to expiry date being 31 August 2019 and liquidity constraints.
		Procurement from Black owned suppliers as % of local spend	35%	32%	Target not met due to reduced spending in FY2019
		Black woman owned as a % of total local spend	12%	24,0%	Target exceeded
		Black youth owned as a % of total local spend	2%	2,00%	
		Spend on companies with ownership by Persons with Disabilities	0,20%	3,65%	Target exceeded
		Small and emerging enterprises suppliers developed	30	42	Target exceeded
	Corporate Social Investment	Total CSI Spend	R13 million	R593k	Target is not met due to liquidity challenges.
Sustainable Development	Training Spend	% of personnel cost	3%	1,0%	Target is monitored and expected to be met at year end.
	Skills Development-Scarce and Critical Skills	Total number of engineering trainees (bursaries and internships)	50	0	Target not met
		Total number artisan trainees	100	6	
		Total number of DTA artisan (enrolments during the year Denel sponsored only)	100	0	
Financial sustainability.	Cash	Cash generated from operations, after restructuring	>R513m	(R1 083m)	Target under strain due to project delays an over investment in working capital.
	Order intake	Value of new orders to be concluded in 2018/19	≥ R2bn	R509m	Target not met
	Solvency	Debt/Equity	80/20	217/-117	Insolvent due to the losses in 2017/18 and 2018/19.
	Profitability management	EBIT Margin	8%	-50%	Target not met due to reduced sales and increased labour recoveries.

OUR GOVERNANCE

OUR GOVERNANCE
PART 6

HOW WE ARE GOVERNED

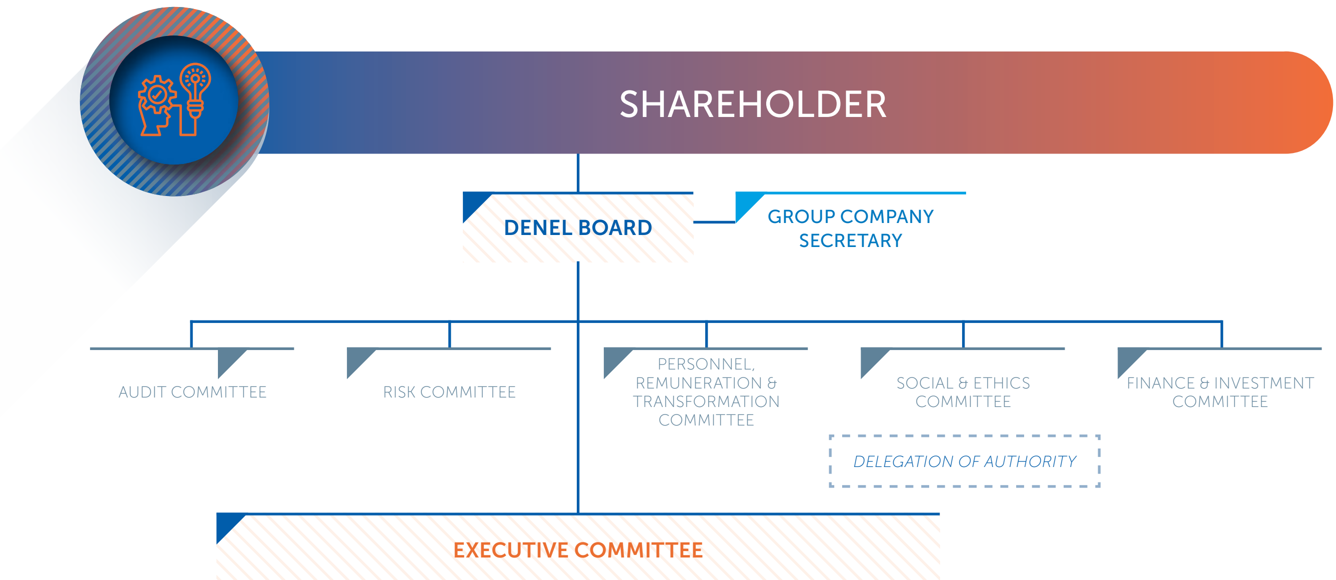
As a state-owned company (SOC), Denel's sole shareholder is the South African Government. The shareholder representative, the Minister of Public Enterprises, appoints a board of directors (the "Board") to oversee the functioning of the company's executive management. The company is, in essence, a group 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 the 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 as well as the statutory requirements contained in the Companies Act, no. 71 of 2008 as amended, the Public Finance Management Act, no. 1 of 1999 as amended (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
- Risk and compliance forum
- Security forum
- Arms control forum
- Transformation forum
- Business development council
- Supply chain forum
- HR forum
- Legal forum
- SHEQ forum
- Group communications forum

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, whilst 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 limited, to 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 strategy 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

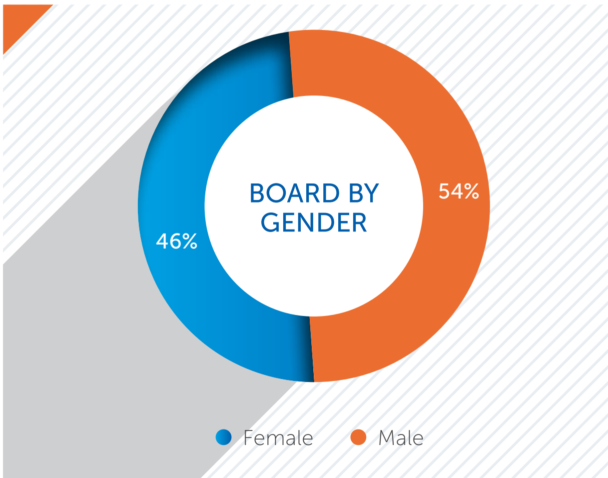
The Denel Board provides leadership and strategic oversight, and specifically oversees the internal control environment to sustain value for the company's shareholder and stakeholders.

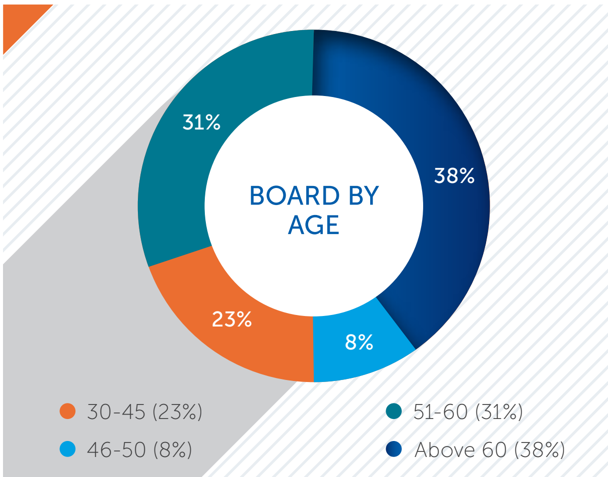
The Board ensures adherence to principles of good governance and accountability as espoused in its Board Charter and the King IV report. All the members of the Board are individually and collectively aware of their responsibilities to the group's stakeholders and each director brings experience, independence 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 non-executive directors. They all meet the Board's independence criteria in terms of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the group.

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 (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). Whilst retiring non-executive directors are eligible for re-appointment, director retirement is staggered to ensure continuity. The GCEO and GCFO are ex-officio directors who are appointed on fixed-term contracts.

The following directors have resigned / removed during the year:

- Z N Ntshepe;
- T Marwala;
- N R Kunene;
- M L Kgobe;
- I Dockrat; and
- Z M Mhlwana.

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.

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 governance best practice is applied, a Board effectiveness review was performed subsequent to the financial year end by the company secretary.

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 presented 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 to be presented in a way that leads to useful discussions and informed decisions at Board level; and
- Strategy implementation, strengthening of the capital structure and improving financial performance.

MANAGING CONFLICT OF INTEREST

The principle of 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 which 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.

> 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.

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. The Board Charter and terms of reference of Board committees were reviewed and revised to align 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 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 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.

COMMITTEE	MATERIAL MATTERS CONSIDERED
Board	During the 2019 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 2018 Integrated Report including the annual financial statements
	• Approved reports to the Shareholder including the corporate plan 2018/19 and quarterly business reports
	• Set the tone of the company values including principles of ethical business practice and requirements of being a responsible corporate citizen
	• Confirmed that the company complies to all applicable laws and best corporate governance practices
	• Exercised independent, informed and effective judgement to bear on material decisions of the group companies
	• Reviewed management's assertion on liquidity and going concern
	• Assessed the stability in executive management
	• Statement on performance management

DETAILS REGARDING BOARD MEETING ATTENDANCE ARE REFLECTED BELOW:

		Q1 (Apr to June 18)				Q2 (July to Sept. 2018)					Q3 (Oct. to Dec 18)				Q4 (Jan. to Mar 2019)			
BOARD MEMBER	Total	Special 20 April 18	Special 8 May 18	16 May 18	Special 25 Jun 18	Special 30 July 18	Special 20 Aug 18	Strategy Session 27 Aug 18	Strategy Session 28 Aug 18	Special 3 Sept 18	25 Oct. 18	AGM 29 Oct 18	Board Budget 22 Nov. 18	Special Board 7 Dec. 18	Special Board 8 Jan 2019	Board Strat. Session 12 Feb. 19	Board Strat. Session 13 Feb. 19	25 Feb 19
Ms M W Hlahla (Chairperson)	17/17	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Ms M K Lehloenya1	14/14	-	-	-	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr T H Magazi	17/17	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Prof. T Marwala[2]	5/11	√	A	√	-	√	√	A	A	A	A	√	-	-	-	-	-	-
Lt. Gen. (rtd) T T Matanzima	8/17	√	√	A	A	-	√	A	A	√	√	A	√	A	-	√	√	A
Mr N R Kunene[3]	6/12	√	√	√	√	-	A	A	A	A	√	A	√	-	-	-	-	-
Mr M M Mnisi	10/17	√	√	√	√	√	√	-	√	A	A	A	√	√	A	A	A	√
Dr H Nel[4]	12/14	-	-	-	√	√	√	√	√	A	√	√	√	A	√	√	√	√
Gen. (rtd) S Nyanda	11/14	-	-	-	√	√	√	√	√	A	√	A	√	A	√	√	√	√
Ms S R Rabkin	16/17	√	√	√	√	√	A	√	√	√	√	√	√	√	√	√	√	√
Mr M T Sadik	16/17	√	√	√	√	√	A	√	√	√	√	√	√	√	√	√	√	√
Mrs G T Serobe	15/17	√	√	√	√	-	√	√	√	A	√	√	T	√	√	√	√	√
Dr S P Sibisi	13/17	A	√	√	√	√	√	√	√	√	√	A	A	A	√	√	√	√
Ms N Siyotula	10/17	A	√	√	A	T	√	A	A	A	T	A	√	A	T	√	√	√
Mr Z Ntshepe[6]	1/1	-	√	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr ML Kgobe[7]	8/10	-	-	√	√	√	√	√	√	√	√	-	A	-	-	-	-	-
Mr Z Mhlwana[8]	3/3	√	√	√	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr G van Zyl[9]	10/10	-	-	-	√	√	√	√	√	√	√	√	√	√		-	-	-
Mr W de Klerk[10]	5/5	-	-	-	-	-	-	-	-	-	-	-	-	√	√	√	√	√
Mr I Dockrat[11]	1/1	-	-	-	-	-	-	-	-	-	-	-	-	√	-	-	-	-
Mr D Du Toit[12]	3/3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	√	√	√

A = Apology
1 = Appointed on 24 May 2018
2= Resigned on 6 November 2018
3= Resigned on 22 November 2018
4= Appointed on 24 May 2018
5= Appointed on 24 May 2018
6= Resigned 15 May 2018
7= Appointed Acting GCEO from 15 May 2018 to 30 November 2018
8= Resigned on
9= Acting GCFO from 18 June 2018
10= Appointed interim GCFO effective 7 November 2018
11= Appointed acting GCEO from 1 December 2018 to 13 January 2018
12= Appointed GCEO effective 14 January 2019

BOARD COMMITTEES

The Board initially delegated specific responsibilities to three standing Board committees, namely the Audit Committee, the Personnel Remuneration and Transformation (PR&T) committee, the Social and Ethics (S&E) committee and the Risk and Investment Committee. During February 2019 the Risk and Investment Committee was separated into two Board committees, namely the Risk Committee and the Finance and Investment Committee.

There are currently five standing Board committees. The Board committees assist the directors to discharge their duties and ensure Board effectiveness in discharging its duties. The committees' terms of reference and the Board Charter are reviewed annually to limit risk and ensure 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 (MOI) and the other Board committees meet at 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 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 (IT). 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 considering 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; and
- IT governance.

COMMITTEE	MATERIAL MATTERS CONSIDERED
Audit Committee	During the 2019 financial year, the committee, amongst others, focused on the following: • Reviewed and recommended for adoption to the board the Annual Financial Report and the Integrated Report for 2018 • 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 • Reviewed and recommended the external audit fees • Reviewed the quality and effectiveness of the external audit process • Considered and approved the insourcing of the internal audit function • Reviewed the quarterly reports for recommendation to the board • Led investigations sanctioned by the State Capture Commission

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

	Q1 (April to June 2018)			Q2 (Jul to Sept. 2018)		Q3 (Oct. to Dec)		Q4 (Jan – Mar 2019)		
COMMITTEE MEMBER	Total	Special 20 April 18	Special 8 May 18	16 May 18	Special 25 Jun 18	Special 30 July 18	Special 20 Aug 18	Strategy Session 27 Aug 18	Strategy Session 28 Aug 18	Special 3 Sept 18
Mr M T Sadik (chairperson)	9/9	√	√	√	√	√	T	√	√	√
Pro. S P Sibisi	8/9	√	√	√	√	√	T	√	√	A
Mrs G T Serobe	4/9	√	T	A	A	√	A	√	A	A
Ms S R Rabkin	9/9	√	√	√	√	√	√	√	√	√
Ms N Siyotula	6/9	√	A	T	A	T	A	T	√	√
Ms K M Lehloenya[1]	1/1									√
Mt T H Magazi[2]	1/1									√
RISK & FINANCE INVITEES										
Lt Gen. (rtd) TT Matanzima	1/1	√	-	-	-	-	-	-	-	-
Mr M M Mnisi	0/1	A	-	-	-	-	-	-	-	-
STANDING INVITEES										
Mr M L Kgobe[3]	4/6	√	√	√	A	√	A	-	-	-
Mr G P van Zyl[4]	5/6	√	A	√	√	√	√	-	-	-
Mr W de Klerk[5]	4/4	-	-	-	-	-	√	√	√	√
Mr D du Toit[6]	½	-	-	-	-	-	-	-	√	A

A = Apology
T – via telecon
[1]= Joined on February 2019
[2]= Joined on February 2019
[3]= Appointed Acting GCEO, effective 15 May 2018 to 30 November 2018
[4]= Appointed Acting GCFO, effective 18 June 2018
[5]= Appointed Interim GCFO, effective 7 November 2018
[6]= Appointed GCEO, effective 14 January 2019

SOCIAL AND ETHICS (S&E) COMMITTEE

In the past year, with the appointment of the new Board Chairman, Board of Directors and Group Chief Executive Officer, the Denel Group has with determined focus embedded the principles of ethical and sustainable development in its business strategy and decision-making.

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 (CSI) programmes, transformation and enterprise development (ED) 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; and
- Reviewing occupational health and safety policies and monitoring effectiveness.

The Denel Group now concentrates on strengthening its governance culture and ethical values with a balanced combination of leadership, controls and standardised processes towards an exemplary company that demonstrates the values of transparency, sound business principles and commitment to its Shareholder and stakeholders.

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 financial year, the Committee, amongst others, focused on the following: • Considered matters relating to the stakeholder management, stakeholder engagement particularly youth in the business • Considered matters relating to group supply chain and transformation B-BEEE and enterprise development • Considered matters relating to occupational health, safety and environmental management • Corporate Social Investments • Reviewed the Fraud and Corruption Prevention Strategy • Recommended the Code of Ethics and Business Conduct Policy to the Audit Committee • Considered the Group Communication and Public Affairs Plan 2019/2020

It is the clear and undisputed vision and commitment of the Denel CEO, the Denel Board and executive management that we are working towards a future Denel that conducts business in an ethical and sustainable manner with focused intention and action towards an exemplary company that acts as a responsible corporate citizen for the development, upliftment and benefit of its stakeholders.

Towards this vision, the Denel is taking proactive action to develop and maintain an ethical corporate culture with appropriate ethical standards to which the Denel Group shall commit and adhere to; and which shall be clearly articulated to its stakeholders.

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Q1 (April to June 2018) no meetings were held	Q2 (July to Sept. 2018) no meetings were held	Q3 (Oct. to Dec. 2018)		Q4 (Jan – Mar 19)		
COMMITTEE MEMBER	Total			12 Oct 18	Special 26 Nov. 18	Special 15 Jan 19	Combined S & E & A 7 Feb 19	Special 19 Feb 19
Dr H Nel (Chairperson)	4/4	-	-	-	√	√	√	√
Prof. T Marwala (Chairperson)[1]	1/1	-	-	√	-	-	-	-
Ms S R Rabkin	4/5	-	-	A	√	√	√	√
Ms M W Hlahla	1/5	-	-	A	A	A		√
Lt. Gen. (rtd) TT Matanzima	3/5	-	-	√	√	A	√	A
Mr MM Mnisi	2/5	-	-	√	A	A	√	A
INVITEES (OTHER NED's)		-	-					
Mr M T Sadik	1/1	-	-	-	-	-	√	-
Mrs G T Serobe	1/1	-	-	-	-	-	√	-
Ms N Siyotula	1/1	-	-	-	-	-	√	-
Dr S P Sibisi	1/1	-	-	-	-	-	√	-
STANDING INVITEES		-	-					
Mr M L Kgobe[2]	0/2	-	-	A	A	-	-	-
Mr G P van Zyl	1/2	-	-	√	A	-	-	-
Mr D du Toit[3]	3/3	-	-	-	-	√	√	√
Mr W De Klerk[4]		-	-	-	-	-	A	A

A= Apology
T= Telecon
1= Resigned, effective 6 November 2018
3= Appointed GCEO effective 14 January 2019
4= Appointed Interim GCFO from 1 November 2018

Dr Hannelie Nel
Chairperson: Social and Ethics Committee

PERSONNEL, REMUNERATION AND TRANSFORMATION (PR&T) COMMITTEE

Denel's Personnel, Remuneration and Transformation Committee, referred to as the PR&T 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, whilst 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 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; and
- 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	• 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
	• Considered HR policies
	• Considered and approved Voluntary Severance Package programmes

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Q1 (April to June. 2018)	Q2 (Jul to Sept 2018)		Q3 (Oct to Dec 2018)	Q4 (Jan – March 2019)			
COMMITTEE MEMBER	Total	4 July 201	Special 25 Sept. 18	9 Oct 18	Special 24 Oct 18	Special 22 Jan 2019	8 Feb 2019	Special 25 Feb 19	Special 6 Mar 19
Mr T H Magazi (Chairperson)	8/8	√	√	√	√	√	√	√	√
Prof. T Marwala[1]	¼	√	A	A	-	-	-	-	-
Ms N Siyotula	7/8	A	T	√	T	√	√	√	√
Ms M W Hlahla	6/8	√	√	√	A	√	√	√	A
Dr H Nel	5/7	-	√	√	√	A	√	√	A
Gen. (rtd) S Nyanda	7/7	-	√	√	√	√	√	√	√
INVITEES (NED)									
Mr M T Sadik	1/1	-	-	-	-	-	-	√	-
Mrs G T Serobe	0/1	-	-	-	-	-	-	A	-
STANDING INVITEES									
Mr M L Kgobe[2]	¾	-	√	√	√	-	-	-	-
Mr G van Zyl[3]	¾	A	√	√	√	-	-	-	-
Mr D du Toit[4]	4/4	-	-	-	-	√	√	√	√

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2= Appointed Acting GCEO on 15 May 2018 to 30 November 2018
3= Acting GCFO from 18 June 2018
4= Appointed as GCFO from 14 January 2019

Thami Magazi
Personnel, remuneration and transformation committee chairman

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:

	Q1 (April to June. 2018)		
COMMITTEE MEMBER	Total	Special 30 May 2018	Special 19 June 2018
Ms G T Serobe (Chairperson)	2/2	√	√
Dr S P Sibisi	2/2	√	√
Prof. T Marwala	1/2	A	√
Mr T Magazi	2/2	√	√
Mr M M Mnisi	2/2	√	√
INVITEES (OTHER NEDs)			
Lt Gen (rtd) T T Matanzima	1/2	A	√
Ms M K Lehloenya	2/2	√	√
Ms N Siyotula	0/2	A	A
Mr N R Kunene	2/2	√	√
Gen. (rtd) S Nyanda	2/2	√	√
Dr H Nel	2/2	√	√
Ms S R Rabkin	2/2	√	√
Mr M T Sadik	2/2	√	√
Ms M W Hlahla	2/2	√	√
STANDING INVITEES			
Mr M L Kgobe[1]	2/2	√	√
Mr Z Mhlwana[2]	0/0	-	-
Mr G van Zyl[3]	2/2	√	√

A= Apology
T= Telecon
1= Resigned effective 6 November 2018
2= Appointed Acting GCEO on 15 May 2018 to 30 November 2018
3= Acting GCFO from 18 June 2018
4= Appointed as GCFO from 14 January 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 commercial and legal experience necessary to oversee and guide the Board.

The Risk Committee's terms of reference were reviewed and approved on 31 March 2019 in line with relevant legislation and best practice.

The 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; and
- 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 financial year, the committee, amongst others, focused on the following: • Reviewed the delegation of authority policy and other risk management and supply chain management policies.

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

		Q1 (April to June 2018) No meetings were held	Q2 (Jul to Sept 2018) No meetings were held	Q3 (Oct to Dec 2018) No meetings were held	Q4 (Jan – Mar 2019)
COMMITTEE MEMBER	Total				28 Mar 2019
Ms M K Lehloenya (Chairperson)	1/1	-	-	-	√
Mr M T Sadik	1/1	-	-	-	T
Dr H Nel	0/1	-	-	-	A
Ms S Rabkin	1/1	-	-	-	√
Mr M M Mnisi	1/1	-	-	-	√
Mr T H Magazi	0/1	-	-	-	A
STANDING INVITEES					
Mr D du Toit[1]	1/1	-	-	-	√
Mr W De Klerk[2]	1/1	-	-	-	√

1. = Appointed GCEO effective 14 January 2019
2. = Appointed Interim GCFO from 1 November 2018

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 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 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 help 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 our procurement and legal departments.

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

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 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 effective discharge of authority, the execution of significant transactions within the realm of the Materiality and Significant 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 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 policies, governance and financial control systems. As such, they comply fully with the PFMA, 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 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 whilst 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, SABS, Dekra, Bureau Veritas, OEMs and SANAS.

Internal audit conducts 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			2 OVERSIGHT ASSURANCE SECOND LEVEL			3 INDEPENDENT ASSURANCE THIRD LEVEL		
Senior management	Accounting officers / authority	Executive authority	Coordonating / Monitoring Institutions	Internal audit	Audit committee	Oversight (portfolio committees / councils)	Public accounts committee	National Assembly
Required assurance levels			Required assurance levels			Required assurance levels		
Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive

Management's assurance role

- **Senior management** - take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/authority** - hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** - monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

- **National Treasury** - monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** - follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** - monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance

- **Oversight (portfolio committees)** - review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** - excercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** - provide independent oversight on the reliability, accuracy and credibility of National and provincial government

FRAUD AND CORRUPTION

Denel does not tolerate fraud and corruptions 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 and ensure fair, equitable and transparent process of procurement and 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 strategy.

PREVENTION OF FRAUD AND CORRUPTION

Denel has put in place a 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 which 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 are 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 for 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. 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

0800 20 48 80

INVESTIGATION AND CONCEQUENCE MANAGEMENT

Denel has appointed a panel of forensic firms to conduct investigations under the subversion of the board Audit Committee. Of the cases concluded disciplinary action or criminal action are being processed as appropriate.

LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

The nature of Denel's business requires assessment of and integration of legal, regulatory and public policy requirements into the strategy and operational processes of the group.

This enables Denel to meet its contractual, moral and corporate citizenship obligations. As a state-owned company (SOC) 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 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 group's strategy Identifying compliance requirements Prioritisation of compliance requirements Integrating compliance requirements into strategy, policy and procedures Assigning accountability for and monitoring compliance requirements	Corporate citizenship Strategy and planning Finance Human resources Business development Operations Public reporting	Defence Review IPAP National Development Plan B-BBEE CSI

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 values and objectives.

The remuneration philosophy supports our human capital strategy which aims to attract and retain employees of the right calibre and competence and motivate employees to perform in line with our business and operational objectives. To ensure internal equity, Denel evaluates and grade 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:

- 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;
- 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 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 divisional operating environment;
- Be fair and equitable and supportive of diverse needs (i.e. remuneration does not discriminate unfairly based on criteria that is not work-related or outside the employee's control such as race, gender, family responsibility, disability, age, etc.);
- Reinforce teamwork and a culture of belonging and high commitment;
- Comply with legislation and relevant guidelines;
- Withstand 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 FOLLOWING AMOUNTS WERE EITHER PAID OR ACCRUED TO THE EXECUTIVES DURING THE YEAR:

Amounts paid or accrued to executives of the group	Salaries	Pension Fund contribution	Medical Aid contribution	Other[7]	Company contribution	Short-term Incentive	Lump Sum/ Loss of office	Total 2018\19	Total 2017/18
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
EXECUTIVE DIRECTORS									
Mr D Du Toit [1 and 6]	885	37	31	74	66	-	2 124	3 218	-
Mr Z Ntshepe [2]	721	22	15	109	40	-		907	3 513
Mr ZM Mhlwana [3]	1 746	62	66	187	111	-	-	2 172	7 023
Sub-total	3 352	122	112	370	217	-	2 124	6 296	10 536
PRESCRIBED OFFICERS									
Ms VQ Qinga	2 239	82	102	187	146	-	-	2 756	2 093
Mr T Kleynhans	2 463	96	146	531	170	-	-	3 406	3 320
Mr DTT Mbele	2 198	80	64	183	142	-	-	2 667	3 999
Mr V Xaxa [4]	1 406	50	53	288	88	-	-	1 885	3 715
Mr O Mothudi [5]	1 155	50	72	96	89	-	-	1 463	754
Ms N Davies	-	-	-	-	-	-	-	-	2 058
Sub-Total	9 462	357	437	1 285	635	-	-	12 176	15 936
Total	**12 815**	**479**	**549**	**1 655**	**852**	**-**	**2 124**	**18 472**	**26 472**

1. = Appointed as GCEO effective 14 January 2019
2. = Resigned as GCEO effective
3. = Resigned as GCFO effective
4. = Resigned as Group Company Secretary effective
5. = Resigned as Group Internal Audit Executive effective
6. = Includes lump sum payment on variation of contract from permanent to contract basis
7. = Other includes mainly 13th cheques and car allowances

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 is emphasising achievement of socio- economic development KPAs like skills development, B-BBEE enterprise development, supplier development, job creation, S.ED. and employment equity. Denel has a well-integrated strategy to deliver on these focus areas which are integrated into the KPAs of the executives and senior managers.

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

LONG-TERM INCENTIVES

Denel 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 in the near future for all qualifying executives.

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 remuneration guidelines, approved by the shareholder representative and confirmed at the AGM. The shareholder approved a 6% increase in fees for non-executive directors at the AGM held on 25 August 2017. Non-executives receive a fee paid by Denel based on their attendance of meetings.

REMUNERATION OF NON-EXECUTIVE DIRECTORS:

	2018/19	2017/18
Directors' fees paid for accrued to the non-executive directors of the group:	R'000	R'000
Mr LD Mantsha	-	859
Ms M Kgomongoe	-	336
Ms P Mahlangu	-	306
Ms R Mokoena	-	23
Mr TJ Msomi	-	74
Lt Gen TM Nkabinde (rtd)	-	313
Ms KPS Ntshavheni	-	360
Ms M W Hlahla	941	-
Mr Z Kunene	207	-
Prof. T Marwala	208	-
Lt Gen. (rtd) T T Matanzima	112	-
Mrs GT Serobe	616	-
Mr M T Sadik	842	-
Ms S R Rabkin	665	-
Dr S P Sibisi	585	-
Ms N Siyotula	504	-
Mr T H Magazi	693	-
Mr M M Mnisi	385	-
Ms M K Lehloenya	255	-
Dr H Nel	515	-
Gen. (rtd) S Nyanda	454	-
	6 983	2 271

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

PART 7

REPORT OF THE AUDIT COMMITTEE

The Audit Committee presents this report for the financial year that ended on 31 March 2019 in terms of the requirements of the Public Finance Management Act (PFMA), Section 94(7) (f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa for the financial year ended 31 March 2019.

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 disclosure, internal control system, 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.

The Committee presenting this report was appointed on 7 April 2018 and its composition is set out on page 75 of the Integrated Report.

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 Committee concluded and advised the Board that a significant improvement in the entire control environment is required. Most of the identified control weaknesses indicated that internal financial controls are largely not working as intended regarding the financial statements assertion 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 no 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 their assessment, the Committee acknowledged that Denel cannot solve its problems alone, but needs support from the shareholder. The committee recognised shareholders support to Denel through engagements and the confidence expressed by the President during the response to the debate on the State Of The Nation Address.

The Committee assessed liquidity taking into account the latest cashflow forecasts, management progress in implementing the turnaround strategy and the steps taken to ensure the repayment of debt occurs. The aspects considered in the going concern assessment have been detailed on note 43.

EXTERNAL AUDITORS

The Committee has satisfied itself that the external auditor, Auditor-General of South Africa (AGSA), was independent of the Group as set out in the PFMA, 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 2018/2019 financial year. The Committee will consider the reappointment of the current external auditors at the AGM in line with the legislative requirements.

INTERNAL AUDIT

During the 2017/18 audit the AGSA found that the internal audit function regressed and as part of the governance turnaround, a decision was made to outsource the Internal Audit function. The appointment for the Internal audit functions has been finalised for 2019/20 and the review internal audit plan will commence shortly in order to address the internal controls deficiencies.

GOVERNANCE TURN-AROUND

The Board has launched a governance turnaround to address the governance weaknesses in the organisation and as well as addressing the weaknesses identified by the AGSA. The governance framework has been approved and aligned to King IV requirements.

In January 2019, the board appointed a GCEO and in September 2019 has appointed a GCFO. The committee is confident on the process followed in strengthening of the management team.

The committee continued its focus on monitoring the status and action taken on addressing key matters arising from investigations and fraudulent activities. Key outstanding disciplinary hearings were finalised and matters have been escalated to the appropriate government agencies for further action where relevant.

The committee placed significant focus during the year on monitoring the progress of the supply chain management to address the shortcomings in the completeness of the information required by the PFMA. The committee acknowledged that the roll-out and implementation of the improvements is a lengthy process which is still continuing. It has recognised that there have been improvements in the identification, reporting and addressing of PFMA matters, even though there are still challenges that need to be addressed.

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 judgements, 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 2017/18 opinion. Given the continued challenges, this will continue as a key action during 2019/20.

EXPERTISE AND KNOWLEDGE OF THE GCFO AND FINANCE FUNCTION

The Committee relied on the findings made by the AGSA in its commentary about the skills available within this function. The Committee has noted the AGSA's report which highlights the lack of appropriate skills and competencies to ensure compliance with relevant legislation including the PFMA, the Companies Act, the King Code, Treasury Regulations and IFRS. The Committee will seek to address these gaps to ensure that the Finance function is appropriately capacitated.

CONCLUSION

The Committee has evaluated the financial statements of Denel and the Group for the year ended 31 March 2019 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 International Financial Reporting Standards. 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 2019 for approval by the Board on 25 September 2019.

On behalf of the Audit Committee.

Mr T Sadik
Chairman of the Audit Committee

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report.

It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the year to 31 March 2020 and, in light of this review and the current financial position, they are satisfied that the Group has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the Group's financial statements. The financial statements have been examined by the Group's external auditor and their report is presented on pages 102 to 110.

The financial statements set out on pages 112 to 227, which have been prepared on the going concern basis, were approved by the board on 25 September 2019 and were signed on their behalf by:

S M HLAHLA
Chairperson

Danie du Toit
Group Chief Executive Officer

DIRECTORS' REPORT

The financial results in this report are based on the results of the Denel SOC Ltd group. The term 'group' refers to the company, its subsidiaries and associated companies. Denel is a state owned commercially driven company and strategic partner for innovative defence, security, aerospace and related technology solutions.

1. NATURE OF BUSINESS

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. The significant operating subsidiaries and divisions are set out in note 37 of the annual financial statements.

The financial year ended 31 March 2019 was characterised by a number of challenges, related to weak contract management, lower order in take, poor levels of productivity and liquidity, lapses in governance and the disclaimer audit opinion. The Minister of Public Enterprises appointed a new Board in 30 April 2018 with a clear mandate which included:

- Rebuilding and strengthening governance;
- Rooting out corruption;
- Restoring Denel's reputation as a reliable defence and aerospace supplier; and
- Ensuring that SOCs fulfil their economic and developmental mandates.

2. FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2019	2018
	Rm	Rm
Revenue	3 764	5 848
Gross (loss)/profit	(614)	438
Other income	92	314
Operating expenditure	(1 363)	(1 717)
Earnings before interest and tax (EBIT)	(1 886)	(965)
Net finance costs	(340)	(306)
Net (loss)/profit	**(1 749)**	**(1 053)**

The 2018/2019 financial year proved another challenging year for Denel with the total comprehensive loss of R1.749 billion for the year compared to the loss of R1.053 (restated) billion in the previous year. The delay on sales has primarily resulted in the year's Net loss. Denel has been further negatively impacted by the reduced margins due to the under recoveries as a result of reduced sales and reduced margins on contracts due to liquidity shortfalls delaying payments to suppliers. Included in the net loss are 'abnormal' provisions for the exit of DAe from its contracts with Airbus and the voluntary settlement approved as at 31 March 2019. For further information refer to the financial results section on pages 64 to 67.

3. 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 R3.214bn of debt is unconditionally guaranteed by the government and total debt amounted to R3.432bn (2017/18: R3.333bn) at year end, resulting in net external interest paid of R351m (2017/18: R325m). This amount excludes the unwinding of interest on long term provision. Refer to the funding section of this report below.

4. IMPAIRMENT OF ASSETS

DENEL VEHICLE SYSTEMS GOODWILL

Denel performed an impairment test on Denel Vehicle Systems and impaired the remainin goodwill of R33m. Management considered the business cash flows which has altered dramatically due to some of the synergies expected on acquisition not materialising, lower than expected revenue and the group's broader financial challenges. See note 10 for further details.

DENEL AEROSTRUCTURES

Subsequent to the decision to exit the Airbus contract and exit the Aerostructures business, Denel reviewed and impaired in full the investment in this business R634m.

5. DENEL MEDICAL BENEFIT TRUST

The group provides a post retirement medical subsidy to current and former employees who were appointed before 01 April 2000. The assets and liabilities are accounted for separately in the Trust and are not included in the consolidated annual financial statements of the group. The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise. Although certain businesses have been unbundled from the group, the total liability remains with Denel. Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit.

To date 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 are provided in note of the consolidated annual financial statements.

6. FUNDING

Denel increased its Domestic Medium Term Note (DMTN) programme from R3bn to R4bn to stabilise and grow the company. Of the R4bn, an amount of R3.34bn is government guaranteed with the guarantee maturing on 30 September 2023. Denel raised guaranteed interest bearing borrowings through the DMTN with a coupon value of Rbn (2018/17: R2.34bn). The debt was issued through commercial paper. The balance of the debt of R690m is unsecured. The group's borrowings are at an average interest rate of 8.9% (2017/18: 8.51%) that includes an average overnight borrowing rate of 8.9% (2017/18: 9.30%), and an average commercial paper programme interest rate of 8.51% (2017/18: 8.51%), which resulted in borrowing cost of R351m (2017/18: R396m restated) during the year.

The negative cash flows from operations R907m is a serious concern caused by the delay in deliveries and the inadequate working capital management.

7. 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:

- Reviewed the performance of the group for the year ended 31 March 2019 with a Net loss of R1.7bn, (Net loss 2017/18: R1.0bn) and projected losses in 2019/20;
- Noted that Denel has been unable to pay is overdue core creditors which may have a material risk on their ability to continue supply which in turn impacts future project requirements. Management has considered this and has put in place mitigating steps to minimise the risk to the business and the board will continue to monitor the payment of overdue creditors and the impact thereof;
- Considered the commercial viability of the business including the major contracts included in the order book (R18bn) and pipeline (R30bn) and Denel's ability to execute on the orders;
- Noted the maintained rating downgrade by Fitch to investment grade with a negative outlook. The board considered the impact this may have in accessing future funding;
- Noted that Denel was able to raise R1.4bn in the investor market in September 2019;
- Noted the continued support of its Shareholder as a going concern and received R1.8bn recapitalisation albeit it was R1bn short of the R2.8bn request. The board is encouraged by the Shareholders' assertion that it will still consider the R1.0bn additional request remaining in the medium term budget process. The outcome of this process will be communicated during October / November 2019. Denel anticipates that the balance of the recapitalisation will be received within the first quarter of 2020/21 financial year;
- Noted the investor sentiments towards through the bridging finance received during the year;
- Reviewed the cash flow forecast for the period of twelve months with adequate cash in the foreseeable future;

- Considered the mitigating steps taken by management through the implementation of the turnaround strategy 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;
- Considered that there remains positive sentiment towards Denel and continued, expressed interest in Denel products, capabilities and IP; and
- Considered the existing strategic relationship between the DoD and Denel. This has been demonstrated by the continued base load work received on critical capabilities.
- 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 30 September 2019. The group annual financial statements were therefore prepared on this basis.

8. INTERNAL CONTROLS

The group has implemented a system of internal controls which is reviewed by the Audit committee on a quarterly basis. The board is satisfied that the system of internal controls is effective.

9. AUDIT OUTCOME

Denel received the disclaimer opinion by the Auditor General. The audit highlighted, amongst others, incorrect application of revenue recognition in the prior years, lapses in controls. Progress on resolving the audit findings have been detailed on page 65 of the Finance Report. The board has appointed an external internal audit function which we are confident will address the lapses in controls.

10. PFMA COMPLIANCE

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.

On appointment, the board instigated investigations on irregular transactions that were entered into in the past. The process required the review of all procurement transaction entered into from 2016/17 to date. This exercise resulted in the identification and reporting of increased irregular expenditure of R2.1bn in the 2018/19 financial year, this included R216.73 incurred in 2018/19. As at year end the investigations and subsequent consequence management were still under way. The board is also considering mechanisms to condone irregular expenditure where there were no instances of maleficence and will in the current year finalise disciplinary actions and criminal charges where appropriate.

11. SUBSIDIARIES AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in note and of the consolidated annual financial statements.

There were no significant acquisitions or divestitures during the year ended 31 March 2019.

12. SHARE CAPITAL AND SHARE PREMIUM

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

13. DIVIDENDS

No dividend was recommended for the 2019 year (2018: Rmnil).

14. COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated annual financial statements to the extent they are not disclaimed by the Auditor General, comply with IFRS.

15. AUDITORS

The consolidated annual financial statements are audited by Auditor General of South Africa. The statutory auditor for the forthcoming year was confirmed at the AGM held on the 26 September 2019.

16. GROUP COMPANY SECRETARY

The group company secretary for the period under review (since 1 December 2018) was Fluidrock Co Sec (Pty) Ltd. It's business and postal addresses, which is also the address of the registered office of the company, are stated below:

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

17. DIRECTORATE

The following board members resigned during the year:

- Prof T Marwala
- Mr NR Kunene
- Mr NZ Ntshepe
- Mr ZM Mhlwana

Further details regarding the board of directors are discussed on pages 73 to 74.

18. EVENTS AFTER THE 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.

DENEL AEROSTRUCTURES SOC LTD

In February 2019, Airbus and Denel agreed to a mutual termination of the A400M contracts subject to Denel procuring requisite approvals from the South African Government to exit Denel Aerostructures SOC Ltd. Subsequently, Denel and Airbus concluded a Memorandum of Understanding (MOU) in April 2019 agreeing the principles to transfer A400M work packages from DAe to Airbus preferred suppliers in Europe subject to requisite approvals and compliance with the Public Finance Management Act (PFMA). Despite Denel being liable for the transfer costs as per existing contracts, it was agreed that Denel's capped liability for the cost of the transfer will be €12m (R196m) against a total transfer cost of €20m.

Denel's ongoing liquidity crisis has also affected both the GKN and Honda work packages such that the severity of the delays could no longer be accommodated and derisked. Both customers have formally notified DAe of their intention to terminate their contractual agreements with DAe due to default by DAe and transfer their work packages to alternative suppliers. As reported above, both customers have subsequently terminated the contracts and finalizing their damages claims against DAe. It is worth mentioning that as per the contract, the total contract liability for GKN are capped at $10m (USD) and for Honda at $5m (USD). This will result in further erosion of the revenue base and with the related reputational damage of poor delivery performance, DAe will not be able to grow the revenue base in the short to medium term to sustainable levels. With the revenue base eroded, DAe will incur losses of circa R226m per year (current base cost) over the next five years.

For Denel the cost of the transfer of the A400M work packages, which is a Denel responsibility, has been negotiated to be limited to €12m (circa R 196m) against a total transfer cost of €20m. It was further agreed by the parties that it is not Airbus' intention to call on the Parent Company Guarantee of €101m and letter of comfort capped at €2m for the A400M work package contracts during the transfer period unless DAe defaults on its obligation of the transfer.

With the exit and winding up of Denel Aerostructure SOC Ltd and related manufacturing capabilities, Denel will be liable for costs in the form of restructuring in accordance with the Labour Relations Act (LRA) Section 189; supporting the handover of design authority to Airbus, facility rehabilitation as per the lease agreement for the facilities, and asset impairment amounting to circa R 262m. GKN and Honda may invoke additional contract liabilities for transfer to the value of $15m (R217m) in lieu of early termination of the contracts. This will however be renegotiated with both GKN and Honda to limit Denel's exposure similar to the negotiated Airbus position.

PUBLIC FINANCE MANAGEMENT ACT (PFMA) SECTION 54 APPLICATION

Following negotiations between Denel SOC Ltd, Denel Aerostructures SOC Ltd (collectively Denel) and Airbus Defence and Space and Airbus Operations GmbH (collectively Airbus) to transfer A400M work packages from Denel to Airbus preferred suppliers in Europe, a Memorandum of Understanding (MoU) was concluded during April 2019. Denel subsequently submitted a Section 54 application for approval as per the Public Finance Management Act (PFMA) to exit and wind up Denel Aerostructures SOC Ltd. The effective date of the MoU as agreed by the parties is the date of approval of the PFMA Section 54 application by both the Ministers of Public Enterprises and Finance. The MoU also spells out the corresponding rights and obligations of the parties (Airbus and Denel) during the transition period. The transition period is described as the period between the effective date of the MoU and signature of the Termination Agreements for each work package.

The Minister of Finance approved the application to exit Denel Aerostructures SOC Ltd on 11 July 2019 with conditions. One of the conditions of the Minister of Finance's approval is that Denel needs concurrent approval of the Section 54 PFMA application also from the Minister of Public Enterprises. On 09 September 2019, Denel received the approval of the Minister of Department of Public Enterprises.

DENEL AERONAUTICS FIRE INCIDENT

On the morning of 28 August 2019 a fire broke out in the cleaning, surface treatment and paint plants in the Aero Engine Work Shop (A03) of Denel Aeronautics. The fire caused significant damage to these areas. There were no fatalities or injuries. The financial impact of the incident is currently under investigation.

DENEL SOC FUNDING

During April 2019, Denel received an additional R1bn government guarantee from the shareholder, furthermore, on 30 August 2019, Denel received correspondence from the Minister of Finance wherein he approved the funding of Denel to an amount of R1.8bn against an application of R2.8bn. This application was approved subject to several conditions including but not limited to the successful execution of the turnaround strategy. The funding was received by Denel on 31 August 2019.

LMT PRODUCTS (PTY) LTD

On 02 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 04 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, Denel no longer has control of this entity.

SALE OF EQUITY SHAREHOLDING OF HENSOLDT OPTRONICS

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. A pre notification in terms of the PFMA was submitted to the Department of Public Enterprises on 26 March 2019, however as at a year end a PFMA approval submission had not yet been submitted at year end. Furthermore on 27 August 2019, the board of Denel approved the sale of Hensoldt with an indicative price and subject to the PMFA submission and approval of the sale.

SALE OF RG21 VEHICLES

At year end management raised a fully provision of R16m on the RG12 Dubai WIP project as a result of continues projects delays and on the back of communication received from the client indicating that the contract will be cancelled if the vehicle was not delivered by the 27th May 2019. It was management views at year end that the delivery date will not be met as a result of lack of support from suppliers due the Denel liquidity challenges. The client has subsequent agreed to have the vehicle delivered to the AUE for testing, and is currently being shipped.

INVESTIGATIONS

The board has concluded several forensic investigations dealing with areas of misconduct and maleficence within Denel. The board is reviewing the reports received and in some instances has acted according to recommendations to pursue civil and criminal action against the individuals involved.

Monhla Hlahla
Chairperson of the Denel board

Danie du Toit
Group Chief Executive Officer

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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

Group Company Secretary

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON DENEL SOC LTD AND ITS SUBSIDIARIES

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 112 to 223, which comprise the consolidated and separate statement of financial position as at 31 March 2019, 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 financial statements of the entity and its subsidiaries. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able 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

REVENUE

3. Denel SOC Limited and its subsidiaries did not correctly apply the principles of International Financial Reporting Standards 15 *Revenue from Contracts with Customers* (IFRS 15) 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 component, variable consideration and did not identify performance obligations and cost to fulfil the contracts as required by IFRS 15. I was unable to determine whether revenue had been recorded correctly by alternative means.
4. Land Mobility Technology SOC Limited (LMT), which is a subsidiary of Denel SOC Limited, did not have a proper accounting system in place to account for all revenue in terms of IFRS 15 *Revenue from Contracts with Customers*. The effect on the consolidated financial statements was that the subsidiary incorrectly recognised performance obligations relating to a material construction contract as satisfied at a point in time instead of over time. I was unable to determine whether revenue had been recorded correctly by alternative means.
5. Denel Aerostructures SOC Limited, which is a subsidiary of Denel SOC Limited, did not have a proper accounting system in place and did not maintain adequate record keeping for transaction to account for all revenue in terms of IFRS 15 *Revenue from Contracts with Customers*. The effect on the consolidated financial statements was that the subsidiary incorrectly recognised performance obligations relating to a material construction contract as satisfied at a point in time instead of over time and vice versa and were not able to substantiate revenue recognised in the current year. In addition, there was no accounting of the transitional adjustments relating to the first time adoption of IFRS 15. Additionally, the subsidiary also classified other income as revenue from contracts with customers which is not as per the requirement of IFRS 15 revenue recognition. I was unable to determine whether revenue had been recorded correctly by alternative means.
6. Consequently, I was unable to determine whether adjustments were necessary to revenue stated at R3 764 million (2017-18: R5 848 million; 2016-17: R7 769 million) and R3 240 million (2017-18: R4 653 million; 2016-17: R5 747 million) in the consolidated and separate financial statements respectively.
7. Furthermore, the following account balances, classes of transactions and disclosure notes in the consolidated and separate financial statements have been affected by the possible effects highlighted above.

- Cost of sales stated at R4 378 million (2017-18: R5 410 million; 2016-17: R6 550 million) and R3 527 million (2017-18: R4 462 million; 2016-17: R4 674 million) in the consolidated and separate financial statements respectively.
- Inventories stated at R2 587 million (2017-18: R3 183 million; 2016-17: R3 263 million) and R2 200 million (2017-18: R2 639 million: 2016-17: R2 741 million) in the consolidated and separate financial statements respectively.
- Trade and other receivables stated at R832 million (2017-18: R1 353 million; 2016-17: R1 820 million) and R 743 million (2017-18: R1 137 million: 2016-17: R1 391 million) in the consolidated and separate financial statements respectively.
- Contract assets stated at R734 million (2017-18: R1 733 million; 2016-17: R1 462 million) and R566 million; (2017-18: R1 299 million; 2016-17: R908 million) in the consolidated and separate financial statements respectively.
- Contract liability stated at R726 million (2017-18: R 358 million; 2016-17: R444 million) and R454 million (2017-18: R136 million; 2016-17: R 186 million) in the consolidated and separate financial statements respectively.

- Advance payment received stated at R3 289 million (2017-18: R3 891 million: 2016-17; R4 632 million) and R3 153 million (2017-18: R3 717 million; 2016-17: R4 188 million) in the consolidated and separate financial statements respectively.
- Provisions stated at R892 million (2017-18: R571 million; 2016-17: R728 million) and R501 million (2017-18: R430 million: 2016-17: R537 million) in the consolidated and separate financial statements respectively.
- Note 02 Segment reporting in the consolidated and separate financial statements.
- Note 42 Change in accounting policies as it relates to IFRS 15 in the consolidated and separate financial statements.

INVENTORIES

8. Denel SOC Limited did not provide sufficient and appropriate audit evidence for work in progress amounting to R344 million as required by IAS 2, *Inventories* (IAS 2) 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 that work in progress included in inventories were recorded by alternative means.
9. I was unable to obtain sufficient appropriate audit evidence that Denel Vehicle System (Proprietary) Limited which is a subsidiary of Denel SOC Limited, accounted for work in progress amounting to R61 million recorded in the consolidated financial statements in accordance with IAS 2 due to the status of the accounting records of the subsidiary. The subsidiary did not have adequate systems of internal controls for recording all raw material issued into production that should be included in work in progress. In addition, some of the production labour hours could not be matched to the hours used to calculate work in progress. I could not confirm the work in progress were recorded correctly in the consolidated financial statements by alternative means.
10. Denel Aerostructures SOC Limited which is a subsidiary of Denel SOC Limited, did not apply consistent valuation techniques on inventories including the use of both actual cost and standard costing method for work in progress and finished goods together with determining whether inventory was stated at the lower of its net realisable value or cost, as required by IAS 2. In addition, some items that did not meet the definition of inventory in terms of IAS 2 were recognised as inventories in the consolidated financial statements. I was unable to determine the full extent of the misstatement as it was impracticable to do so.
11. I was unable to obtain sufficient appropriate audit evidence for inventories due to information that was not provided for audit and well as material differences in the accounting records for inventory of Land Mobility Technology SOC Limited (LMT) amounting to R70 million recorded in the consolidated financial statements. I was unable obtain sufficient appropriate audit evidence through alternative means. The subsidiary's records did not permit the application of alternation audit procedures due to the lack of proper accounting systems
12. Consequently, I was unable to determine whether adjustment were necessary to inventories stated at R2 587 million (2017-18: R3 183 million; 2016-17: R3 263 million) and R2 200 million in the consolidated and separate financial statements.
13. Furthermore, the following class of transaction and disclosure note in the financial statements have been affected by the possible effects highlighted above.

- Cost of sales stated at R4 378 million (2017-18: R5 410 million; 2016-17: R6 550 million) and R 3527 million in the consolidated and separate financial statements respectively.
- Prior period error note 40 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

14. Denel SOC Limited and its subsidiaries 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. Additionally, management did not adequately assess property, plant and equipment for impairment at the reporting date in accordance with IAS 36, Impairment of assets. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the properties valued at R38 million as title deeds were not provided and I was unable to confirm these properties by alternative means. Consequently, I was unable to determine the impact on the net carrying amount of property, plant and equipment stated at R906 million (2017-18: R1 079 million; 2016-17: R1 142 million) and R 571 million (2017-18: R614 million; 2016-17: R639 million); depreciation stated at R 86 million (2017-18: R132 million; 2016-17: R140 million) and R58 million (2017-18: R104 million; 2016-17: R103 million), in note 8 to the consolidated and separate financial statements, as it was impractical to do so.

TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

15. Denel SOC Limited and its subsidiaries, applied IFRS 9 *Financial Instruments* (IFRS 9) for the first time in the current year. I was unable to obtain sufficient appropriate audit evidence with respect to the valuation of the trade and other receivables and contract assets as the expected credit losses model applied to trade and other receivables did not fully comply with the requirements of IFRS 9 on the measurement of expected credit losses and the data used in the calculation did not agree to the trade and other receivables stated in the consolidated and separate financial statements. In addition, 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. I was unable to confirm whether trade and other receivables and contract assets were recorded correctly by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to trade and other receivables stated at R832 million (2017-18: R1 353 million; 2016-17: R1 820 million) and R743 million (2017-18: R1 137 million;

2016-17: R1 391 million) and contract asset stated at R734 million (2017-18: R1 733 million; 2016-17: R1 462 million) and R566 million (2017-18: R1 299 million; 2016-17: R908 million) in the consolidated and separate financial statements respectively

16. The group did not adequately disclose the qualitative and quantitative information supporting the allowance for expected credit losses and the inputs and assumptions used by management in determining the expected 12 month and lifetime credit losses as required by IFRS 7 Financial Instruments Disclosure (IFRS 7) in the consolidated and separate financial statements.

TRADE AND OTHER PAYABLES

17. The group did not recognise all outstanding amounts meeting the definition of a liability in accordance with IAS 1, *Presentation of financial statements*. As the entity did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was unable to determine the full extent of the understatement of trade payables and accruals stated at R431 million and R341 million in note 27 to the consolidated and separate financial statements as it was impracticable to do so.
18. Furthermore, I was unable to obtain sufficient appropriate audit evidence for trade and other payables for Land Mobility Technology SOC Limited, which is a subsidiary of Denel SOC Limited due to the poor status of accounting record. I was unable to obtain sufficient appropriate audit evidence through alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the trade and other payables balance stated in the consolidated financial statements at R1 817 million.

FINANCIAL LIABILITIES

19. Denel SOC Limited issued a financial guarantee for credit facilities to a party outside the group for an amount of R39 million. The entity did not determine the fair value, nor recognise a financial liability for this financial guarantee contract even though it meets the definition of a financial guarantee in terms of IFRS 9. I was unable to obtain sufficient appropriate audit evidence for the financial guarantee contract in the consolidated and separate financial statements due to information that was not available. I was unable to confirm the financial liability through alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the consolidated and separate financial statements relating to this financial guarantee contract.

INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

20. Denel SOC Limited did not correctly apply the requirements of IAS 36 *Impairment of assets* while performing an impairment assessment for the investment in Denel Vehicle Systems (Proprietary) Limited (DVS). The discounted cash flows for DVS included sale of cash generating units that are not highly probable. Furthermore, Denel SOC Limited 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* (IAS 28). I was unable to determine the necessary adjustments to investment in associates by alternative means. Denel SOC Limited also did not account for the post-acquisition change in hedging reserve from Rheinmetall Denel Munition (Proprietary) Limited which has resulted in an overstatement of share of profit in associate with an amount of R68 million (2017-18:R58 million).
21. Additionally, the group's investment in Turbomeca Africa (Proprietary) Limited (Turbomeca), which is a subsidiary of Denel SOC Limited was accounted for using the equity method as per IAS 28 until 31 August 2017. Subsequent to this date, the group gained control and consolidated its assets and liabilities as part of the group. Denel SOC Limited did not appropriately determine the fair value of the assets and liabilities on the date it gained control to determine the goodwill or gain from a bargain purchase arising from the acquisition, as required by IFRS 3, *Business Combinations*. Subsequent to the acquisition, Denel SOC Limited divisionalised Turbomeca by transferring the assets and liabilities of Turbomeca in to Denel Aeronautics a division of Denel SOC Limited. We were not provided with supporting documentation to support the divisionalisation of Turbomeca into Denel Aeronautics a division of Denel SOC Limited.
22. I was unable to obtain sufficient appropriate audit evidence by alternative means on the matters described in paragraph 20 and 21 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 where necessary;

- Investments in subsidiaries stated at R825 million (2017-18: R1 580 million; 2016-17: R1 486 million) in the separate financial statements
- Investments in associates stated at R1 453 million and R450 million
- Share of profit in associate companies stated at R424 million as per note 12 to the consolidated financial statements

NON- CURRENT ASSETS HELD FOR SALE

23. Denel SOC Limited did not recognise the probable sale of an associate (Hensoldt Optronics (Proprietary) Limited) 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. The interest in the associate should have been recognised at the lower of the carrying amount of the asset or fair value less cost to sell. The investment in associate as disclosed in note 12 to the consolidated and separate financial statements is therefore overstated by R162 million and non-current assets held for sale understated by the same amount.

RETIREMENT BENEFIT OBLIGATION

24. 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 as stated in note 36.1 of the consolidated financial statements being overstated by R211 million. Consequently,

operating expenditure as stated in note 3 is overstated by R211 million and interest cost and expected return on plan asset are understated by R174 million and net actuarial gain is overstated by R37 million in the consolidated and financial statements

OPERATING EXPENDITURE

25. I was unable to obtain sufficient appropriate audit evidence to support transactions relating to operating expenses amounting R288 million. I was unable to confirm operating expenses by alternative means.
26. Consequently, I was unable to determine whether any adjustments relating to operating expenses, stated at R1 364 million and R1 598 million in note 3, to the consolidated and separate financial statements were necessary.

CONTINGENT LIABILITIES

27. I was unable to obtain sufficient appropriate audit evidence as to whether LMT which is a subsidiary of Denel SOC Limited disclosed all contingent liabilities as per note 29 of the consolidated financial statements. This was due to a legal confirmation from the entity's legal counsel which I could not obtain. I was unable to confirm whether contingent liabilities were disclosed correctly by alternative means.
28. Furthermore, Denel SOC Limited did not maintain accurate and complete records of the contractual information used to determine performance guarantees disclosed as contingent liabilities in note 29 of the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed for contingent liabilities in note 29 and whether any adjustments were necessary to contingent liabilities stated at R5 372 million and R4 779 million. I was unable to confirm whether contingent liabilities were disclosed correctly by alternative means.

CHANGE IN ACCOUNTING POLICY

29. The Group did not disclose the financial impact of the change in accounting policy, as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), for IFRS 9 resulting in incomplete disclosure in note 42 of the consolidated and separate financial statements.

CORRECTION OF PRIOR PERIOD ERRORS

30. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts as presented in note 40 to the consolidated and separate financial statements. As described in note 40 to the financial statements, the restatements were made to rectify previous year misstatements, but these restatements could not be substantiated by appropriate audit evidence. 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. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary for each financial statement item affected as disclosed in note 40 to the financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

31. Denel SOC Limited and its subsidiaries did not adequately disclose the nature 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 34 of the consolidated and separate financial statements, in accordance with IFRS 7. The entity 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, Denel SOC Limited could not provide the basis and the supporting documentation for the fair values disclosed in note 34 to the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustments are necessary to note 34 of the financial statements.

RELATED PARTIES

32. The group have extensive related party transactions within the group as well as with other government entities contrary to the requirements of IAS 24, *Related Party Disclosures*, management did not completely 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 33 of the consolidated and separate financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

IRREGULAR EXPENDITURE

33. Section 55(2)(b)(i) of the Public Finance Management Act of South Africa, 1999 (Act No. 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 as the group did not have adequate controls to maintain complete records of irregular expenditure. I was unable to determine the full extent of the understatement of the irregular expenditure note, as it was impracticable to do so. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure disclosed as R2 118 million (2017-18: R1 903 million and 2016-17: R1 563 million) and R1 045 million (2017-18: R925 million and 2016-17:R799 million) in note 39 to the consolidated and separate financial statements.

FRUITLESS AND WASTEFUL EXPENDITURE

34. Section 55(2)(b)(i) of the PFMA requires the group to include particular of all fruitless and wasteful expenditure incurred in the financial statements. Denel Group did not include all fruitless and wasteful expenditure incurred in the notes to the financial statements as the group did not have adequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to determine the full extent of the understatement of the fruitless and wasteful expenditure note, as it was impracticable to do so. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful

expenditure disclosed as R136 million (2017-18: R0) and R132 million (2017-18 :R0) in the consolidated and separate financial statements.

STATEMENT OF CASH FLOWS

35. The group did not report major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities separately as required by IAS 7 *Statement of Cash Flows*. Gross cash receipts or payments from contract assets and advance payments received are incorrectly reported as investing and financing activities respectively instead of operating activities. Cash flows from contract assets and advance payments should be reported as operating activities as they arise from the principal revenue-producing activities of the group and not from investing or financing activities. Furthermore, investing and financing transactions that do not require the use of cash or cash equivalents are not excluded from the statement of cash flows. Consequently, I was unable to determine whether any adjustments are necessary to the Statement of Cash Flow as presented in the consolidated and separate financial statements.

DEFERRED TAX AND INCOME TAX

36. 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 were supported by accurate and complete underlying records. The accuracy and completeness of the deferred tax was also affected by the qualification areas of other account balances and class of transactions in the consolidated and separate financial statements, as included above. I was unable to determine the correct adjustments to the tax loss and other temporary differences as required by IAS 12 *Income Taxes,* as it was impracticable to do so. Consequently, I was unable to determine the adjustments to the tax disclosure note 7 and deferred tax disclosure note 14 in the consolidated and separate financial statements.

KEY AUDIT MATTERS

37. Except for the matters described in the basis for disclaimer of opinion section or material uncertainty relating to going concern section, I have determined that there are no other key audit matters to communicate in this auditor's report.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

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

GOING CONCERN

39. I draw attention to note 43, to the consolidated and separate financial statements, the group incurred a net loss of R1.7 billion for the year ended 31 March 2019, projected losses in 2019-20 and received R1.8 billion recapitalisation from the shareholder. Based on the factors listed in note 43, while there is a material uncertainty that may cast significant doubt regarding the going concern, the accounting authority is satisfied that given the mitigating steps taken, Denel will continue as a going concern for the foreseeable future.

EMPHASIS OF MATTERS

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

RESTATEMENT OF CORRESPONDING FIGURES

41. As disclosed in note 40, to the financial statements, the corresponding figures for 31 March 2018 and 31 March 2017 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2019.

RESPONSIBILITIES OF ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

42. 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 International Financial Reporting Standard (IFRS) and the requirements of the PFMA and Companies Act of South Africa, 2008 (Act No.71 of 2008)(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.
43. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Denel 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 Denel 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

44. 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.
45. I am independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* and the ethical requirements that are relevant to my audit of the consolidated and separate financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

46. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic pillars presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
47. My procedures address 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/ measures included in the planning documents. My procedures also did 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
48. 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 objectives presented in the annual performance report of the public entity for the year ended 31 March 2019:

STRATEGIC PILLARS OBJECTIVES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Strategic Pillar 1 – Operational Excellence	67
Strategic Pillar 2 – Sustainable Development	67
Strategic Pillar 3 – Financial Sustainability	67

49. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
50. The material findings in respect of the usefulness and reliability of the selected Strategic Pillars are as follows:

STRATEGIC PILLAR 1 – OPERATIONAL EXCELLENCE

VARIOUS INDICATORS

51. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

INDICATOR DESCRIPTION	REPORTED ACHIEVEMENT
Retained strategic capabilities in support of the DoD&MVs requirements as per register	100%
Achieving contracted cash flow targets on major programmes	83%
Achieving of cardinal milestones as contractually agreed by clients for selected major programmes	72%

RESEARCH AND DEVELOPMENT INVESTMENT

52. I was unable to obtain sufficient appropriate audit evidence for the reported indicator Research and development investment and the reported achievement of the target stated as R108.4 million. This was due to limitations placed on the scope of my work and a lack of proper record keeping. 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 the target stated as R108.4 million as reported in the annual performance report.

STRATEGIC PILLAR 2 – SUSTAINABLE DEVELOPMENT

VARIOUS INDICATORS

53. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

INDICATOR DESCRIPTION	REPORTED ACHIEVEMENT
ACI as % of total appointments	83%
Women as % of total appointments	58%
Local content	64%

B-BBEE (% of recognised spend)

54. The achievement for target B-BBEE contributor level (as % recognised spend) reported in the annual performance report was 71,5%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 60%.

VARIOUS INDICATORS

55. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 10 of the 15 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

INDICATOR DESCRIPTION	REPORTED ACHIEVEMENT
Procurement from Black owned suppliers as % of local spend	32%
Black woman owned as a % of total local spend	24%
Black youth owned as a % of total local spend	2%
Spend on companies with ownership by Persons with Disabilities	3.65%
Small and emerging enterprises suppliers developed	42
Total CSI Spend	R593k
% of personnel cost	1%
Total number of engineering trainees (bursaries and internships)	0
Total number artisan trainees	6
Total number of DTA artisan (enrolments during the year Denel sponsored only)	0

STRATEGIC PILLAR 3 – FINANCIAL SUSTAINABILITY

VALUE OF NEW ORDERS TO BE CONCLUDED IN 2018/19

56. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of target; Value of new orders to be concluded. This was due to a lack of technical indicator descriptions and proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of R509 million as reported in the annual performance report.

VARIOUS INDICATORS

57. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of three of the four indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance reports of the indicators listed below:

INDICATOR DESCRIPTION	REPORTED ACHIEVEMENT
Cash generated from operations, after restructuring	(R1 083) million
Debt/Equity	217/-117
EBIT Margin	-50%

OTHER MATTER

58. I draw attention to the matter below.

ACHIEVEMENT OF PLANNED TARGETS

59. Refer to the annual performance report on page 67 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 usefulness and reliability of the reported performance information in paragraph(s) 46 to 57 of this report.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

60. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
61. The material findings on compliance with specific matters in key legislations are as follows:

ANNUAL FINANCIAL STATEMENTS

62. Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.
63. 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.
64. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.

EXPENDITURE MANAGEMENT

65. 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 39 of the financial statements does not reflect the full extent of the irregular expenditure incurred. The majority of the irregular expenditure disclosed in the financial statements was caused by the

non-compliance to the supply chain management policy and lack of proper record keeping.

66. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA and treasury regulations 9.1.1. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred, as indicated in the basis of disclaimer of opinion section.

REVENUE MANAGEMENT

67. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

STRATEGIC PLANNING

68. The corporate plan did not cover a period of three years as required by section 52(b) of the PFMA and treasury regulation 29.1.1.

PROCUREMENT AND CONTRACT MANAGEMENT

69. 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.
70. Some of the contracts and quotations were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, as required by the 2017 preferential procurement regulation 5(6) and (7). Similar non-compliance was also reported in the prior year.
71. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board in accordance with section 18(1) of the CIDB Act.

CONSEQUENCE MANAGEMENT

72. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against some of the officials who had incurred and permitted irregular expenditure in prior years, as required by section 51(1)(e)(iii) of the PFMA.

OTHER INFORMATION

73. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected strategic pillars presented in the annual performance report that have been specifically reported in this auditor's report.
74. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
75. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic pillars presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
76. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

77. 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.
78. Instability in key leadership had a significant impact on the performance of the Denel Group and contributed toward the stagnation in internal controls
79. The leadership did not establish and communicate clear policies and procedures to enable and support the understanding and execution of internal objective, processes and responsibilities. Assurance processes were not implemented in time to ensure that information relating to the preparation of financial statements was adequately reviewed; as a result, significant errors were identified by the external auditors
80. Leadership did not implement adequate processes to ensure that the IT governance framework and IT strategy documents are approved at the correct level of governance; this included IT policies and procedures that were not adequately documented
81. Proper record keeping was not implemented in a manner that ensured that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
82. Officials involved in the preparation and review of financial statements were not updated on the latest development and changes to the accounting standards.
83. Management did not implement basic financial management disciplines and controls over daily and monthly processing and reconciliation of transactions to enable effective decision-making by the leadership and timeous corrective action where required.
84. The review of compliance with applicable laws and regulations was ineffective. This was further compounded by a lack of understanding of the requirements of the PFMA and supply chain management requirements by officials across the group.

85. Management did not implement adequate controls to ensure that data backup management processes and disaster recovery requirements are in place for availability of business and financial data from an offsite facility.
86. The internal audit unit was not adequately resourced to effectively assist in identifying internal control deficiencies and develop recommendations in respect of corrective action to be taken to address internal control deficiencies.

OTHER REPORTS

87. I draw attention to the following engagements conducted by various parties that 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 financial statements or my findings on the reported performance information or compliance with legislation.

INVESTIGATIONS

88. Allegations of maladministration on issues of 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 the date of this report, these investigations were still underway.

AUDIT – RELATED SERVICE

89. 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
Place of signing
30 September 2019

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Notes	GROUP 2018/19 Rm	GROUP 2017/18 Restated* Rm	GROUP 2016/17 Restated* Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Restated* Rm	COMPANY 2016/17 Restated* Rm
ASSETS							
Non-current assets							
Property, plant and equipment	8	906	1 079	1 142	571	614	639
Investment property	9	844	794	728	832	784	718
Intangible assets	10	70	111	321	32	38	25
Investments in subsidiaries	11	-	-	-	825	1 580	1 486
Investments in associates	12	1 453	1 113	995	450	450	500
Loans receivable	13	-	-	-	-	-	265
Deferred tax liabilities	14	74	22	24	-	-	-
Advance payments made	17	-	-	-	17	-	-
		3 347	3 119	3 210	2 727	3 466	3 633
Current assets							
Inventories	15	2 587	3 183	3 263	2 200	2 639	2 741
Trade and other receivables	16	832	1 353	1 820	743	1 137	1 391
Contract assets	18	734	1 733	1 462	566	1 299	908
Advance payments made	17	365	371	495	327	372	526
Other financial assets	19	113	193	209	113	184	141
Cash and cash equivalents	20	575	1 277	2 021	470	1 061	1 556
Income tax receivables		7	8	1	3	6	-
Loan receivable	13	-	-	-	46	-	-
Retirement benefit asset		1	2	3	2	2	3
		5 214	8 120	9 274	4 470	6 700	7 266
Total assets		8 561	11 239	12 484	7 197	10 166	10 899

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS AT 31 MARCH 2019

	Notes	GROUP 2018/19 Rm	GROUP 2017/18 Restated* Rm	GROUP 2016/17 Restated* Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Restated* Rm	COMPANY 2016/17 Restated* Rm
EQUITY AND LIABILITIES							
Equity							
Share capital and share premium	21	1 225	1 225	1 225	1 225	1 225	1 225
Share premium	21	4 951	4 951	4 951	4 951	4 951	4 951
Reserves		33	30	25	30	30	30
Retained income		(7 809)	(5 650)	(4 793)	(8 467)	(6 310)	(5 176)
		(1 600)	556	1 408	(2 261)	(104)	1 030
Non-controlling interest		(94)	(105)	4	-	-	-
		(1 694)	451	1 412	(2 261)	(104)	1 030
Liabilities							
Non-current liabilities							
Loans and borrowings	23	192	13	853	184	298	955
Advance payments received	25	2 153	1 844	2 060	2 144	1 844	2 029
Provisions	26	600	337	327	248	269	250
Deferred tax liabilities	14	1	1	1	-	-	-
Amounts payable on contracts		7	-	-	7	-	-
		2 953	2 195	3 241	2 583	2 411	3 234
Current liabilities							
Trade and other payables	27	1 817	2 480	1 824	1 522	2 231	1 404
Contract liabilities	28	726	358	444	454	136	186
Loans and borrowings	23	3 240	3 321	2 412	2 589	3 319	2 505
Other financial liabilities	19	41	135	170	34	135	94
Advance payments received	25	1 136	2 047	2 572	1 009	1 873	2 159
Current tax payable		9	4	1	4	4	-
Provisions	26	292	234	402	253	161	287
Preference dividends payable	22	6	6	6	-	-	-
Bank overdraft	20	35	8	-	10	-	-
		7 302	8 593	7 831	6 875	7 859	6 635
Total liabilities		10 255	10 788	11 072	9 458	10 270	9 869
Total equity and liabilities		8 561	11 239	12 484	7 197	10 166	10 899

CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

AS AT 31 MARCH 2019

		GROUP			COMPANY		
		2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
			Restated*	Restated*		Restated*	Restated*
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
Revenue	2	3 764	5 848	7 769	3 240	4 653	5 747
Cost of sales	3	(4 378)	(5 410)	(6 550)	(3 527)	(4 462)	(4 674)
Gross (loss) profit		(614)	438	1 219	(287)	191	1 073
Other operating income	4	92	314	350	187	520	320
Other operating expenses	3	(1 364)	(1 717)	(1 552)	(1 598)	(1 541)	(1 323)
Operating (loss) profit		(1 886)	(965)	17	(1 698)	(830)	70
Investment income	6	34	70	80	27	96	92
Finance costs	6	(374)	(376)	(368)	(397)	(394)	(375)
Share of profit in associated companies		425	226	154	-	-	-
Loss before taxation		(1 801)	(1 045)	(117)	(2 068)	(1 128)	(213)
Taxation	7	52	(8)	(72)	(1)	(3)	-
Loss for the year		(1 749)	(1 053)	(189)	(2 069)	(1 131)	(213)
Other comprehensive income:							
Items that will not be reclassified to profit or loss:							
Gains on property revaluation		-	5	-	-	-	-
Other comprehensive income for the year net of taxation		-	5	-	-	-	-
Total comprehensive loss for the year		(1 749)	(1 048)	(189)	(2 069)	(1 131)	(213)
Total comprehensive loss attributable to:							
Owners of the parent		(1 728)	(938)	(178)	(2 069)	(1 131)	(213)
Non controlling interest		(21)	(110)	(11)	-	-	-
		(1 749)	(1 048)	(189)	(2 069)	(1 131)	(213)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2019

	Notes	Share capital Rm	Share premium Rm	Total share capital Rm	Revaluation reserve Rm	Retained income Rm	Total attributable to equity holders of the group / company Rm	Non controlling interest Rm	Total equity
GROUP									
Restated* Balance at 01 April 2017	21	1 225	4 951	6 176	25	(4 793)	1 408	4	1 412
Loss for the year		-	-	-	-	(943)	(943)	(110)	(1 053)
Other comprehensive income		-	-	-	5	-	5	-	5
Total comprehensive Loss for the year		-	-	5		(943)	(938)	(110)	(1 048)
Changes in accounting policies		-	-	-	-	86	86	-	86
Balance at 01 April 2018	21	1 225	4 951	6 176	30	(5 650)	556	(105)	451
Loss for the year		-	-	-	-	(1 728)	(1 728)	(21)	(1 749)
Other comprehensive income		-	-	-	-	-	3	-	3
Total comprehensive Loss for the year		-	-	-	-	(1 728)	(1 725)	(21)	(1 746)
Changes in accounting policies				-		(431)	(431)	-	(431)
Balance at 31 March 2019	21	1 225	4 951	6 176	33	(7 809)	(1 600)	(94)	(1 694)
COMPANY									
Restated* Balance at 1 April 2017	21	1 225	4 951	6 176	30	(5 176)	1 030	-	1 030
Loss for the year		-	-	-	-	(1 131)	(1 131)	-	(1 131)
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive Loss for the year		-	-	-		(1 131)	(1 131)	-	(1 131)
Changes in accounting policies		-	-	-	-	(3)	(3)	-	(3)
Balance at 01 April 2018	21	1 225	4 951	6 176	30	(6 310)	(104)	-	(104)
Loss for the year		-	-	-	-	(2 069)	(2 069)	-	(2 069)
Total comprehensive Loss for the year		-	-	-	-	(2 069)	(2 069)	-	(2 069)
Changes in accounting policies		-	-	-	-	(88)	(88)	-	(88)
Balance at 31 March 2019	21	1 225	4 951	6 176	30	(8 467)	(2 261)	-	(2 261)

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

AS AT 31 MARCH 2019

		GROUP			COMPANY		
		2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
			Restated*	Restated*		Restated*	Restated*
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
Cash flows from operating activities							
Cash used in operations	30	(907)	394	1 166	21	679	(2 041)
Interest income		34	70	80	27	96	92
Finance costs		(374)	(376)	(368)	(397)	(394)	(375)
Tax received (paid)		54	(6)	(37)	2	(5)	-
Net cash from operating activities		(1 193)	82	841	(347)	376	(2 324)
Cash flows from investing activities							
Purchase of property, plant and equipment	8	(18)	(77)	(97)	-	(11)	(86)
Sale of property, plant and equipment	8	2	-	2	-	-	-
Sale of contract assets		993	-	-	733	-	-
Net cash from investing activities		977	(77)	(95)	733	(11)	(86)
Cash flows from financing activities							
Repayment of borrowings		(181)	(57)	(364)	(409)	(408)	2 213
Movement in provisions		263	10	(364)	(21)	19	(35)
Movement in advance payments received		309	(185)	-	300	(185)	-
Movement in amounts payable on contracts		(904)	(525)	-	(857)	(286)	-
Net cash from financing activities		(513)	(757)	(728)	(987)	(860)	2 178
Total cash movement for the year		(729)	(752)	18	(601)	(495)	(232)
Cash at the beginning of the year		1 269	2 021	2 003	1 061	1 556	1 788
Total cash at end of the year	20	540	1 269	2 021	460	1 061	1 556

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

1. CORPORATE INFORMATION

Denel SOC Ltd is a private company incorporated and domiciled in South Africa. The consolidated 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 2019 comprise the company, its subsidiaries and associated companies (the Group).

1.1. STATEMENT OF COMPLIANCE

The consolidated annual financial statements have been prepared in accordance with IFRS, the Companies Act of 2008 and Public Finance Management Act (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 at fair value through profit and loss, and investment properties, which are measured at fair value.

A number of International Financial Reporting Standards, Interpretations and amendments as issued by the International Accounting Standards Board ("IASB") became applicable to the group, effective 1 April 2018, which have required changes to our accounting policies. The following standards were particularly relevant to the group:

- IFRS 9: Financial Instruments ("IFRS 9"); and
- IFRS 15: Revenue from Contracts with Customers ("IFRS 15").

Refer note 42 for further details of the impact the adoption of these standards have on the group. The other new standards, interpretations and amendments that became applicable to the group during the current reporting period did not have a significant impact on the group.

CHANGES IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND DISCLOSURES

The group applied the new accounting standards IFRS 15 Revenue from Contracts with customers and IFRS 9 Financial Instruments for the first time in the 2019 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 on note 42. The transition to IFRS 15 has been adjusted as a cumulative impact to opening retained income in the 2019 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 2019 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 has:

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

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

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

Where the company's interest in subsidiaries is less than 100%, the portion attributable to outside shareholders is reflected in non controlling interest (refer note 22). Transactions with non controlling interests 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 to 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 and it derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control ceases. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest as an associated company, joint venture or financial asset.

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 Rnil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the relevant associated company. The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

SEPERATE FINANCIAL STATEMENTS

In the separate annual financial statements, investment in subsidiaries and associated companies that are 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 JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing these consolidated financial statements, management has made judgements, 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 judgement, 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 judgements about 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 and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the consolidated annual financial statements and estimates with a significant risk of material adjustment in the following 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 JUDGEMENTS AND ESTIMATES

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

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:

- 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; and
- 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 judgement that there will be future taxable profit against which the deferred assets may be utilized. Management has considered current order book, future business plans in determining that that there will be future taxable profits.

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.

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 judgements 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 contract 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 cost 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.

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 associated sensitivity analysis.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

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.

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 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 landuses for the sites with due consideration given to the current legislative framework and local best practice. In determining the provision for decommissioning, three key component costs were considered, namely:

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

The amount raised as a provision was based on the detail study performed, taking into account the expected timing of decontamination ranging between 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 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; and
- Exchange rates as at year end have been used to convert the obligations to ZAR.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 REVENUE RECOGNITION

REVENUE AND PROFIT RECOGNITION

The IASB 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 on 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 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 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 contract margin consistent with the Group's pricing principles. Whilst 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 prepayment guarantee is 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.

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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 customers' 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 addition 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 date of contract modification)or
3. as 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)

The majority of the Group's contract modifications are treated under 3 (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 IFRS and according to their tax base.

Deferred tax is not provided for the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit 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 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 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 assets and liabilities on the trade date at which the group becomes a party to the contractual provisions of the instrument. Any difference between the proceeds and fair value, net of transaction costs and the redemption value is recognised in profit and loss over the period of the financial instrument.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at fair value.

FINANCIAL LIABILITIES

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

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 de recognition 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.

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

EMBEDDED DERIVATIVES

Embedded derivatives are separated from the host contract and accounted for separately. The group contracts in various currencies based on the preference and location of the customer. Where the economic characteristics and risks of the host contract and the embedded derivative are not closely related, then the embedded derivative is recognised separately. The embedded derivative is measured at fair value through profit and loss.

Foreign exchange embedded derivatives are brought into account when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce except if such currency is a common currency. Denel views the United States Dollar (USD), Pound Sterling (GBP) and EURO (EUR) as common currencies. All foreign exchange embedded derivatives are measured at fair value. Gains or losses arising on subsequent measurement of embedded derivatives are recognised in profit and loss.

The embedded derivative assets or liabilities are released to revenue, cost of sales, operating costs or a related asset to reflect a ZAR host contract at the initial expected forward rate when risks and rewards pass to customers or the group.

DE RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS

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

- The contractual rights to receive cash flows from the asset have expired; or
- The group has transferred its contractual rights to receive cash flows from the asset and either:

  i) Has transferred substantially all the risks and rewards of the asset of ownership, or
  ii) Has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

FINANCIAL LIABILITIES

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

1.4.5 TRANSLATION OF 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 PROPERTY

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 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 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 are 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.

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; and
- 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.

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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.

DE RECOGNITION

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

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

Gains and/or losses on de recognition of items of property, plant and equipment are recognised in profit 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 IFRS's. 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 at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units, or groups of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

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

Where goodwill forms part of a cash generating unit 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 OF ASSETS

FINANCIAL ASSETS

The Group has the following types of financial asset 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 11 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 of those from other assets or groups of assets. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined based on the cash generating unit to which the asset belongs.

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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, it is 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, allocated variable and fixed production overheads based on normal production levels.

CONSUMABLE INVENTORIES

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

1.4.12 ADVANCED PAYMENTS RECEIVED FROM REVENUE CONTRACTS

In the case of comprehensive and/or long term revenue contracts, advance payments are negotiated with local and foreign customers. These funds are used to finance the execution of contracts, which include advance payments to suppliers, finance long lead inventory items and work in progress. Guarantees are provided to customers for advance payments received. Advance payments received are recognised as a current liability for 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.

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 note 36).

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 SA on all imported content. Countertrade obligations can be a percentage of the value of the export contract up to 100%. The buyer's country normally requires a combination of the following to discharge the obligation:

- Procurement of products and services from suppliers in the buyer's country; or
- Participation in a business venture or 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 segments' assets). The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the EXCO of Denel SOC Ltd.

1.4.16 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 are recognised in profit and loss in the same period.

1.5 STANDARD, 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 16	Leases – New standard that requires a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.	1 January 2019
IFRS 3	Business combinations – Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interest in that business.	1 January 2019
IAS 40	Investment Property Transfers of Investment Property – Clarification of the requirements on transfers to, or from, investment property.	1 January 2018

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AMENDMENTS WITH POSSIBLE SIGNIFICANT IMPACT

IFRS 16, Leases

IFRS 16 provides a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right of use assets similarly to other non financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities.

As a consequence, a lessee recognises depreciation of the right of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7, Statement of cash flows. Denel has implemented an initial assessment of the potential impact on its consolidated financial statements but has not completed a detailed assessment.

So far, the most impact identified is that Denel will recognise new assets and liabilities for its operating leases of the Kempton Park and Houwteq premises. In addition, the nature of the expenses will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm
2 REVENUE						
Contract revenue [1 and 2]	3 623	5 715	7 606	3 088	4 509	5 573
Sale of goods	3 489	5 582	7 333	2 930	4 352	5 431
Services rendered	134	133	273	158	157	142
Revenue from recoveries	-	-	41	-	-	41
Income from investment properties[2]	141	133	122	152	144	133
	3 764	5 848	7 769	3 240	4 653	5 747
Timing of revenue recognition						
At a point in time	158			130		
Over time	3 606			3 110		
	3 764			3 240		

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:						
1 – Year	1 937			780		
1 – 2 Years	264			256		
2 – 3 Years	15			13		
3 – 4 Years	30			-		
	2 246	-	-	1 049	-	-

The following table provides information about Receivables, Contract assets and Contract liabilities:

Receivables, which are included in Trade and other receivables (refer note 16)	666	1 076	1 459	553	881	1 006
Contract assets (refer note 18)	734	1 733	1 462	566	1 299	908
Contract liabilities (refer note 28)	726	358	444	454	136	186

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 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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2 REVENUE (CONTINUED)

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

BUSINESS SEGMENTS

The group comprises the following main operating segments:

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

The results of business units with revenue less than 10% (2017/18: 10%, 2016/17: 10%) of the group revenue are aggregated within an operating segment which products and services closest relates to that of the specific entity.

2 REVENUE (CONTINUED)

GROUP

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Solutions Rm	Munitions Rm	Non core Rm	Consolidation entries Rm	Total Rm
2018/19								
Segment revenue	115	636	717	2 021	225	438	(388)	3 764
Revenue from external customers	114	586	675	2 003	203	183	-	3 764
Intergroup revenue	1	50	42	18	22	255	(388)	-
Contribution	3%	16%	18%	53%	5%	5%	-%	100%
Segment operating profit/(loss)	(589)	(416)	(107)	(677)	(213)	(563)	660	(1 905)
Net finance income/(costs)	2	(71)	24	55	(34)	(316)	-	(340)
Share of profit in associated companies	-	-	-	-	-	-	425	425
Income tax expense	-	-	-	52	-	-	-	52
Net (loss)/profit for the year	**(587)**	**(487)**	**(83)**	**(570)**	**(247)**	**(879)**	**1 085**	**(1 768)**
Segment assets	294	898	1 021	4 587	653	6 661	(5 598)	8 516
Deferred tax assets	-	-	-	74	-	-	-	74
Total assets								**8 590**
Segment liabilities	943	1 759	557	4 983	682	5 550	(4 192)	10 282
Deferred tax liabilities	-	-	-	1	-	2	(2)	1
Total liabilities								**8 590**
Capital expenditure	4	13	-	-	-	-	-	17
Impairment losses raised/(reversed)	125	31	15	70	(9)	794	(726)	300
Depreciation/amortisation i.r.o. segment assets	17	26	12	19	3	13	-	90
Significant non cash items								
Fair value adjustment	-	-	-	3	-	44	-	47

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2 REVENUE (CONTINUED)

GROUP

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017/18								
Segment revenue	404	1 346	704	2 989	444	422	(461)	5 848
Revenue from external customers	400	1 280	620	2 930	442	177	-	5 849
Intergroup revenue	4	66	84	59	2	245	(461)	(1)
Contribution	7%	22%	11%	50%	8%	3%	-%	100%
Segment operating profit/(loss)	(51)	(279)	(69)	(444)	(140)	68	(74)	(989)
Net finance income/(costs)	8	(43)	21	24	(31)	(285)	-	(306)
Share of profit in associated companies	-	-	-	-	-	-	226	226
Income tax expense	-	-	-	(7)	-	(1)	-	(8)
Net (loss)/profit for the year	**(43)**	**(322)**	**(48)**	**(427)**	**(171)**	**(218)**	**152**	**(1 077)**
Segment assets	889	1 970	1 217	5 355	762	7 735	(6 716)	11 212
Deferred tax assets	-	-	-	22	-	-	-	22
Total assets								**11 234**
Segment liabilities	673	2 330	663	5 061	530	5 755	(4 226)	10 786
Deferred tax liabilities	-	-	-	1	-	2	(2)	1
Total liabilities								**10 787**
Capital expenditure	2	26	39	91	-	22	(37)	143
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

	GROUP			COMPANY		
	2018/19	2017/18 Restated*	2016/17 Restated*	2018/19	2017/18 Restated*	2016/17 Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

2 REVENUE (CONTINUED)

	GROUP 2018/19 Rm			COMPANY 2018/19 Rm		
Revenue by region						
Africa	108			107		
Asia Pacific	891			891		
Europe	324			214		
Middle East	458			235		
North America	100			-		
South Africa	1 849			1 770		
South America	21			21		
USA	13			2		
Other	-			-		
	3 764			3 240		

3 COST OF SALES AND OTHER OPERATING EXPENSES

	GROUP 2018/19 Rm	GROUP 2017/18 Restated* Rm	GROUP 2016/17 Restated* Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Restated* Rm	COMPANY 2016/17 Restated* Rm
Cost of sales	4 378	5 410	6 550	3 527	4 462	4 674
Previously reported	4 396	5 405	6 236	3 552	4 465	4 838
Other operating expenses	1 364	1 717	1 552	1 598	1 541	1 323
Previously reported	-	1 726	1 483	-	1 548	1 254
Reversal of impairment loss (refer note 40)	(12)	(39)	-	(6)	(6)	(3)
Cost of sales and other operating expenses are arrived at after taking the following items into account:						
Amortisation of intangible assets (refer note 10)	8	9	11	6	5	7
Software	8	9	11	6	5	7
Auditors' remuneration	31	12	13	24	10	10
Current year	31	12	13	24	10	10
Costs of inventories recognised as an expense (refer note 15)	2 944	2 246	4 032	2 521	941	3 097
Depreciation (refer note 8)	86	132	140	58	104	103
Buildings	14	27	29	12	31	25
Computer equipment	10	16	20	7	13	17
Office furniture	2	3	3	2	2	2
Plant and machinery	54	80	80	32	51	49
Vehicles	5	7	10	4	7	10
Directors remuneration [3]	25	33	15	25	33	15
Executive directors	6	31	12	6	31	12
Non-executive directors	7	2	3	7	2	3

1. *Directors' remuneration is excluded from Employees: Salaries and relevant costs. Detailed remuneration is fully disclosed in the remuneration report, pages 67 to 68. Executive directors' remuneration is included from date of appointment as director.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
3 COST OF SALES AND OTHER OPERATING EXPENSES (CONTINUED)						
Employees: Salaries and relevant costs [1]	2 145	2 296	2 370	1 753	1 746	1 691
Medical fund contributions	114	118	111	93	92	85
Pension costs: Defined contribution plan	145	189	176	132	155	146
Services costs	1 890	2 139	2 055	1 528	1 606	1 540
Staff and related provisions	(10)	(164)	28	(6)	(118)	(80)
Termination benefits	6	14	-	6	11	-
Impairment raised/(reversed)	294	269	36	846	345	(5)
Intangible assets (refer note 10)	-	1	-	-	-	-
Investments in subsidiaries	33	235	-	760	314	-
Inventories	120	25	38	86	29	(8)
Property, plant and equipment	107	-	-	-	-	-
Trade and other receivables (refer note 16)	34	8	(2)	-	2	3
Net losses on financial instruments (refer note 5)	158	273	232	142	275	361
Operating expenses for investment properties	142	51	197	130	51	280
Operating lease payments [2]	80	81	87	72	72	71
Buildings	73	72	70	66	64	64
Computer equipment	1	2	4	1	2	3
Office furniture	5	6	4	5	6	4
Plant and machinery	1	1	9	-	-	-
Research and development costs [3]	108	504	609	88	401	599

1. *Directors' remuneration is excluded from Employees: Salaries and relevant costs. Detailed remuneration is fully disclosed in the remuneration report, pages x to x. Executive directors' remuneration is included from date of appointment as director.*
2. *No lease incentives were received during 2018/19 (2017/18 and 2016/17: Rnil).*
3. *The R&D costs are mainly customer funded. No amount (2017/18 and 2016/17: Rnil) was charged against provisions and RXm (2017/18: R17m) has been capitalised during the year under review.*

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
4 OTHER INCOME						
Administration and management fees	3	4	4	21	38	29
Dividends received	18	130	4	48	207	3
Fair value adjustment on investment properties	46	66	48	44	66	48
Government grants received	1	8	14	1	8	13
Royalty income	18	7	33	51	66	47
Other income	42	99	247	22	135	180
	92	314	350	187	520	320
5 NET GAINS ON FINANCIAL INSTRUMENTS						
Settled transactions	(102)	(128)	(186)	(101)	(85)	(214)
Gains	148	149	135	144	136	107
Losses	(250)	(277)	(321)	(245)	(221)	(321)
Fair value adjustments	(143)	4	129	(128)	(6)	28
Gains	112	481	567	65	235	328
Losses	(255)	(477)	(438)	(193)	(241)	(300)
Firm commitments remeasurement	87	(75)	(175)	87	(75)	(175)
Gains	88	14	72	88	14	72
Losses	(1)	(89)	(247)	(1)	(89)	(247)
Refer note 3 and 4	(158)	(199)	(232)	(142)	(166)	(361)

1. *Other is mainly made up of scrap sales, insurance claims, low claim bonuses, discount received, as well as skills development levies rebates received.*
2. *Due to a formula error, Other income in total was overstated by R1m, R136m i.s.o. R135m w.r.t. the group and R172m i.s.o. R172m w.r.t. the company' in 2016/17 Integrated Report, with "Other" been also corrected as the balancing figure.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
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	-	72	-	-	72
Current interest-bearing loans and borrowings	350	331	255	374	349	262
Finance costs on financial liabilities	351	331	327	374	349	334
Unwinding of discount on provisions (refer note 26)	23	45	41	23	45	41
	374	376	368	397	394	375
6.2 FINANCE INCOME						
Gross interest received	39	62	79	32	88	91
Unwinding of discount on provisions (refer note 26.3)	(5)	8	1	(5)	8	1
	34	70	80	27	96	92
Net finance costs	340	306	288	370	298	283
6.3 RECONCILIATION						
Interest paid						
Finance costs (refer note 6.1)	374	359	352	397	377	360
Add back:						
Unwinding of discount on provisions (refer note 26.3)	(27)	(28)	(24)	-	(28)	(24)
Movement in interest accrued for the year	-	(20)	(11)	-	(20)	(11)
Discount on borrowings	-	40	21	-	40	21
As per the consolidated and separate statements of cash flows	347	351	338	397	369	346
Interest received						
Finance income (refer note 6.2)	34	67	101	27	92	113
Add back:						
Loans to beneficiaries	5	(8)	(1)	5	(8)	(1)
Movement in interest receivable for the year	-	2	-	-	1	-
As per the consolidated and separate statements of cash flows	39	61	100	32	85	112

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

7 INCOME TAX EXPENSE

	Rm	Rm	Rm	Rm	Rm	Rm
SA income tax						
Local income tax[1]	(48)	(1)	22	1	-	-
Forein Tax	-	3	-	-	3	-
Deferred tax	(4)	6	50	-	-	-
	(52)	8	72	1	3	-

	%	%	%	%	%	%
Reconciliation of tax rate						
Effective tax rate	3.95%	6.31%	6.58%	20.77%	10.87%	-
Adjustment in tax rate due to:	24.05%	21.69%	21.42%	7.23%	17.13%	28.00%
Deferred tax asset not recognised	23.09%	23.45%	10.21%	10.62%	18.58%	24.56%
Share of associated companies	(6.70)%	(2.50)%	12.11%	-	-	-
Other	7.66%	0.74%	(0.90)%	(3.39)%	(1.44)%	3.44%
SA normal tax rate	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%

	Rm	Rm	Rm	Rm	Rm	Rm
The calculated tax losses available for offset against future taxable income are as follows:						
Calculated income tax losses	5 022	3 600	(973)	4 987	3 214	(973)
Capital gains tax losses	(24)	(10)	-	327	340	-
Total calculated tax losses	4 999	3 590	(973)	5 314	3 554	(973)
Calculated tax losses utilised	-	-	-	-	-	-
Net available calculated tax losses	4 998	3 590	(973)	5 314	3 554	(973)

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 CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

	Land Rm	Buildings Rm	Plant and machinery Rm	Computer equipment Rm	Vehicles Rm	Office furniture Rm	Assets under construction Rm	Total Rm
8 PROPERTY, PLANT AND EQUIPMENT								
GROUP								
2018/19								
Opening balance								
Cost	52	711	1 913	282	130	51	20	3 159
Accumulated depreciation and impairment	-	(280)	(1 403)	(244)	(111)	(42)	-	(2 080)
Net book value at 01 April 2018	**52**	**431**	**510**	**38**	**19**	**9**	**20**	**1 079**
Additions	8	8	11	-	-	-	7	34
Disposals	-	(2)	-	-	-	-	-	(2)
Transfers	-	-	3	-	-	-	-	3
Reclassifications	-	13	(13)	(5)	-	-	2	(3)
Fair value at first consolidation	-	-	-	-	-	-	(4)	(4)
Depreciation	-	(14)	(54)	(10)	(5)	(3)	-	(86)
Write off	(4)	(5)	-	-	-	-	-	(9)
Impairment	-	(7)	(99)	-	-	-	-	(106)
Net book value at 31 March 2019	**56**	**424**	**358**	**23**	**14**	**6**	**25**	**906**
Made up as follows:								
Cost	56	723	1 906	261	117	49	25	3 137
Accumulated depreciation and impairment	-	(299)	(1 548)	(238)	(103)	(43)	-	(2 231)
	56	**424**	**358**	**23**	**14**	**6**	**25**	**906**

	Land	Buildings	Plant and machinery	Computer equipment	Vehicles	Office furniture	Assets under construction	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP

2017/18

	Land Rm	Buildings Rm	Plant and machinery Rm	Computer equipment Rm	Vehicles Rm	Office furniture Rm	Assets under construction Rm	Total Rm
Opening balance								
Cost	52	710	1 852	278	130	51	29	3 102
Accumulated depreciation and impairment	-	(257)	(1 325)	(235)	(104)	(39)	-	(1 960)
Net book value at 01 April 2017	52	453	527	43	26	12	29	1 142
Additions	-	5	39	10	-	-	17	71
Transfers	-	-	-	-	-	-	(1)	(1)
Reclassifications	-	-	23	1	-	-	(25)	(1)
Depreciation	-	(27)	(79)	(16)	(7)	(3)	-	(132)
Net book value at 31 March 2018	52	431	510	38	19	9	20	1 079
Made up as follows:								
Cost	52	711	1 913	282	130	51	20	3 159
Accumulated depreciation and impairment	-	(280)	(1 403)	(244)	(111)	(42)	-	(2 080)
	52	431	510	38	19	9	20	1 079

2016/17

	Land Rm	Buildings Rm	Plant and machinery Rm	Computer equipment Rm	Vehicles Rm	Office furniture Rm	Assets under construction Rm	Total Rm
Opening balance								
Cost	46	698	1 833	274	130	51	20	3 052
Accumulated depreciation and impairment	-	(224)	(1 269)	(217)	(95)	(37)	-	(1 842)
Net book value at 01 April 2017	46	474	564	57	35	14	20	1 210
Additions	6	8	34	6	2	1	12	69
Disposals	-	-	(2)	-	-	-	-	(2)
Transfer from intangible assets	-	-	-	-	-	-	5	5
Reclassifications	-	-	8	-	-	-	(8)	-
Depreciation	-	(29)	(77)	(20)	(11)	(3)	-	(140)
Net book value at 31 March 2018	52	453	527	43	26	12	29	1 142
Made up as follows:								
Cost	52	710	1 852	278	130	51	29	3 102
Accumulated depreciation and impairment	-	(257)	(1 325)	(235)	(104)	(39)	-	(1 960)
	52	453	527	43	26	12	29	1 142

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8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

COMPANY

2018/19

	Land Rm	Buildings Rm	Plant and machinery Rm	Computer equipment Rm	Vehicles Rm	Office furniture Rm	Assets under construction Rm	Total Rm
Opening balance								
Cost	52	456	1 312	192	121	30	16	2 179
Accumulated depreciation and impairment	-	(227)	(1 045)	(158)	(103)	(23)	-	(2 556)
Net book value at 01 April 2018	52	229	267	34	18	7	16	623
Additions	8	8	11	-	-	-	3	30
Transfers	-	(8)	3	-	-	-	(5)	(10)
Reclassifications	-	11	(11)	(6)	-	-	6	-
Fair value at first consolidation	-	-	(3)	-	-	-	-	(3)
Depreciation	-	(12)	(32)	(8)	(4)	(2)	-	(58)
Write off	(4)	(4)	-	-	-	-	-	(8)
Net book value at 31 March 2019	56	224	235	20	14	5	20	574
Made up as follows:								
Cost	56	480	1 308	180	109	29	17	2 179
Accumulated depreciation and impairment	-	(256)	(1 073)	(160)	(95)	(24)	-	(1 608)
	56	224	235	20	14	5	17	571

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

COMPANY

	Land Rm	Buildings Rm	Plant and machinery Rm	Computer equipment Rm	Vehicles Rm	Office furniture Rm	Assets under construction Rm	Total Rm
2017/18								
Opening balance								
Cost	52	461	1 253	181	122	29	17	2 115
Accumulated depreciation and impairment	-	(226)	(988)	(145)	(97)	(20)	-	(1 476)
Net book value at 01 April 2017	**52**	**235**	**265**	**36**	**25**	**9**	**17**	**639**
Additions	-	15	43	11	1	-	6	76
Transfers	-	-	3	-	-	-	-	3
Reclassifications	-	-	7	-	-	-	(7)	-
Depreciation	-	(31)	(51)	(13)	(7)	(2)	-	(104)
Net book value at 31 March 2018	**52**	**219**	**267**	**34**	**19**	**7**	**16**	**614**
Made up as follows:								
Cost	52	465	1 312	192	122	30	16	2 189
Accumulated depreciation and impairment	-	(246)	(1 045)	(158)	(103)	(23)	-	(1 575)
	52	**219**	**267**	**34**	**19**	**7**	**16**	**614**
2016/17								
Opening balance								
Cost	46	451	1 237	180	121	29	16	2 080
Accumulated depreciation and impairment	-	(196)	(962)	(131)	(87)	(19)	-	(1 395)
Net book value at 01 April 2017	**46**	**255**	**275**	**49**	**34**	**10**	**16**	**685**
Additions	6	5	33	4	1	1	7	57
Reclassifications	-	-	6	-	-	-	(6)	-
Depreciation	-	(25)	(49)	(17)	(10)	(2)	-	(103)
Net book value at 31 March 2018	**52**	**235**	**265**	**36**	**25**	**9**	**17**	**639**
Made up as follows:								
Cost	52	461	1 253	181	122	29	17	2 115
Accumulated depreciation and impairment	-	(226)	(988)	(145)	(97)	(20)	-	(1 476)
	52	**235**	**265**	**36**	**25**	**9**	**17**	**639**

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
9 INVESTMENT PROPERTIES						
Fair value at 1 April	794	728	680	784	718	671
Additions	4	-	-	4	-	-
Fair value adjustment (refer note 4)	46	53	48	44	53	47
Fair value adjustment	-	13	-	-	13	-
Transfer from assets held for sale	-	-	156	-	-	156
Disposal of investment property	-	-	(156)	-	-	(156)
Fair value at 31 March	**844**	**794**	**728**	**832**	**784**	**718**

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 its 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 125.

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 (8% 10%, 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); and • Risk adjusted discount rates (12.0%, weighted average 13.13%).	The estimated fair value world 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 low.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

10 INTANGIBLE ASSETS

Development costs	47	46	31	18	16	-
At cost	237	234	217	203	199	111
Accumulated amortisation and impairment	(190)	(188)	(186)	(185)	(183)	(111)
Goodwill	8	42	259	-	-	-
At cost	349	349	331	-	-	-
Accumulated impairment	(341)	(307)	(72)	-	-	-
Denel Aerostructure SOC Ltd	(72)	(72)	(72)	-	-	-
LMT Holdings SOC Ltd (RF) [1]	(9)	(9)	-	-	-	-
Denel Vehicle Systems (Pty) Ltd [2]	(241)	(207)	-	-	-	-
Turbomeca Africa (Pty) Ltd [3]	(19)	(19)	-	-	-	-
Software	7	15	23	6	14	17
At cost	191	198	198	151	158	159
Accumulated amortisation and impairment	(184)	(183)	(175)	(145)	(144)	(142)
Other [4]	8	8	8	8	8	8
At cost	34	34	34	8	8	8
Accumulated amortisation and impairment	(26)	(26)	(26)	-	-	-
Total carrying value at 31 March	70	111	321	32	38	25

1. *On 11 May 2012, Denel acquired 51% of the issued ordinary shares of LMT Holdings (Pty) Ltd, an unlisted company, who's core business is in the provision of protected vehicle solutions. LMT Holdings (Pty) Ltd have three subsidiaries i.e. LMT Products (Pty) Ltd, LMT Engineering (Pty) Ltd and LMT Properties (Pty) Ltd. The company has acquired LMT Holdings (Pty) Ltd to broaden its landward capability for a new product range. The acquisition was for a purchase consideration of R100 on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies. The goodwill of Rnil (2017/18: Rnil, 2016/17: R9m) comprises the value of the expected synergies arising from the acquisition. A decision was taken by management to write off the goodwill arising from the LMT Holdings(Pty) Ltd in the 2018/19 financial year. 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 R242m. In 2018/19, the recoverable R462m amount 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 R44m was recognised. The impairment was allocated with R33m against the remaining goodwill and R10m against the investment. 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 South African Government bond, the R186 South African Government bond. The cashflows were based on the most recent Corporate Plan of DVS. Ten years of cash flows were included in the discounted cashflows 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 as such.

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	COMPANY 2018/19 Rm	2017/18 Rm	2016/17 Rm
11 INVESTMENTS IN SUBSIDIARIES			
Unlisted shares	2 635	2 635	2 541
Accumulated impairment	(1 810)	(1 055)	(1 055)
Carrying value at 31 March	**825**	**1 580**	**1 486**
The accumulated impairment loss on investments in subsidiaries is as follows:			
Unlisted shares			
Impairment for the year (refer note 3) [1]			
Balance at 1 April	1 055	1 055	1 055
Impairment for the year	755	-	-
	1 810	1 055	1 055

	2017/18			2016/17			2015/16		
	Effective shareholding %	Share investment by Denel SOC Ltd Rm	Impairment Rm	Effective shareholding %	Share investment by Denel SOC Ltd Rm	Impairment Rm	Effective shareholding %	Share investment by Denel SOC Ltd Rm	Impairment Rm
Subsidiary companies									
Denel Aerostructures SOC Ltd	100	1 689	(1 689)	100	1 689	(1 055)	100	1 689	(1 055)
Densecure SOC Ltd	100	8	-	100	8	-	100	8	-
LMT Holdings SOC Ltd (RF)	51	16	(16)	51	16	-	51	16	-
Denel Vehicle Systems (Pty) Ltd	100	828	(10)	100	828	-	100	828	-
Turbomeca (Africa) Pty) Ltd	100	94	(94)	-	94	-	-	-	-
Denel Asia LLC	51	-	-	51	-	-	51	-	-
		2 635	(1 810)		2 635	(1 055)		2 541	(1 055)

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

100% of the shares held in Denel Vehicle Systems (Pty) Ltd have been pledged as security in relation to the loan received from Nedbank (refer note 24.3).

A detailed breakdown of the investments in subsidiaries is contained in note 37.

12 INVESTMENTS 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 sought partners to share technology, development cost and funding, access to markets and assist in management. During this process a number of equity partners were identified which 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 their power to participate in the financial and operating policy decisions of the company, but not control or 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 it's associated companies, it has no control or joint control over its associated companies w.r.t. their financial and operating policy decisions.

Rheinmetall Denel Munition (Pty) Ltd was established on 1 September 2008 when the Denel entities comprising of 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 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 shareholder's agreement to appoint three of the five board members;
- Rheinmetall Waffe Munition GmbH manage the day to day activities of the company in terms of the shareholder's agreement; and
- Rheinmetall Waffe Munition GmbH has the right to appoint the CEO and CFO of their choice of the company in terms of the shareholder's agreement.

These matters were initially considered by management in 2008 when the company was established. At that time and subsequently Rheinmetall Denel Munition (Pty) Ltd has been accounted for using the equity method. On adoption of IFRS 10, "Consolidated Financial Statements", these same factors enabled management to conclude, without making any significant judgements, 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 SA 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 partnerships' 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 of TMA where Denel appoint the CFO; and
- 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 Munition (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.

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

Turbomeca Africa (Pty) Ltd is a world leader in design, manufacturing and sale of gas turbines for small and medium powered helicopters. Denel SOC Ltd bought the remaining 51% on 1 September 2017. Refer note 8.1.

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12 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

12.1 ESTABLISHMENT OF ASSOCIATED COMPANIES (CONTINUED)

		2018/19 and 2017/18				2016/17	
		Denel SOC Ltd		Equity partners		Denel SOC Ltd	
Associated company	Equity partner	Shareholding %	Number of board members	Shareholding %	Number of board members	Shareholding %	Number of board members
Hensoldt Optronics (Pty) Ltd	Hensoldt Sensors GmbH [1]	30	1	70	5	30	1
Rheinmetall Denel Munition (Pty) Ltd	Rheinmetall Waffe Munition GmbH [1]	49	2	51	3	49	2
Pioneer Land Systems LLC	International Golden Group PJSC [2]	49	2	51	3	49	2
Barij Dynamics	Tawazun Holding [2]	49	2	51	3	49	2
Turbomeca Africa (Pty) Ltd [3]	Turbomeca SAS and Safran SA [4]	-	-	-	-	49	3

The above mentioned information was used in management's judgement that Denel did not exercise control over these companies and therefore, will disclosed these companies as associate companies. The financial year end of all Denel's associated companies is 31 December.

12.2 NET INVESTMENT IN ASSOCIATED COMPANIES

The total comprehensive loss attributable to one of the associated companies for the year end 31 December 2016 was R100m. As per the company's accounting policy and in accordance with IAS 28, Investments in associates and joint ventures, paragraph 38, the associates share of losses is only recognised up to the value of the investment in the associate which was R23m for 2016/17. The remaining attributable comprehensive loss of R77m for 2016/17 has been offsetted against 2016/17's generated profits of the associated company before the investment was recognised in the company's accounting records. The associate company, and has subsequently made profits sinc 2016/17.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm
12.2 NET INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)						
Cost of investments in associated companies						
Unlisted shares	450	450	500	450	450	500
Net share of results in associated companies	1 002	663	495	-	-	-
Share of current year profit before tax	454	281	203	-	-	-
Share of current year tax	(30)	(55)	(48)	-	-	-
Share of current year profit after tax (refer note 29)	424	226	155	-	-	-
Dividends paid	(85)	(25)	-	-	-	-
Accumulated profit at 1 April	663	457	341	-	-	-
Net investments in associated companies	1 453	1 113	995	450	450	500
The net investments in associated companies are made up as follows:						
Cost of investments in associated companies						
Hensoldt Optronics (Pty) Ltd [1]	149	149	128	55	55	55
Rheinmetall Denel Munition (Pty) Ltd	957	879	735	372	372	372
Tawazun Dynamics LLC [2]	347	85	45	23	23	23
Turbomeca Africa (Pty) Ltd	-	-	87	-	-	49
Net investments in associated companies	1 453	1 113	995	450	450	499

None of the investments in associated companies were impaired during the year under review (2016/17: 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 2108.*
2. *Company is incorporated in the UAE.*
3. *Both companies are incorporated in France.*
4. *Turbomeca Africa (Pty) Ltd is a world leader in 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 note 11.*
5. *Refer to the consolidated and separate income statements and statements of comprehensive income, page 14.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

	2018/19 Rm	2017/18 Rm	2016/17 Rm

12 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

12.3 EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

Rheinmetall Denel Munition (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 Munition (Pty) Ltd's annual financial statements were restated to reflect Denel's accounting 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 Munition (Pty) Ltd:

	2018/19 Rm	2017/18 Rm	2016/17 Rm
Total assets	3 205	2 752	2 466
Non-current assets	1018	629	637
Current assets	2 187	2 123	1 829
Total liabilities	1 517	381	1 214
Non-current liabilities	484	194	169
Current liabilities	1 033	187	1 045
Net assets	1 688	2371	1 252
Group's share of associated company's net assets	827	1162	613
Revenue	2 733	2809	2 376
Group's share of revenue	1 399	1376	1 164
Profit before tax	287	448	344
Group's share of profit before tax	141	220	169
Profit after tax	222	345	260
Group's share of profit after tax	109	169	127

12 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

12.3 EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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 Munition (Pty) Ltd:

	2018/19 Rm	2017/18 Rm	2016/17 Rm
Total assets	4 102	3 201	3 389
Non-current assets	460	382	339
Current assets	3 642	2 819	3 050
Total liabilities	2 965	2 574	2 728
Non-current liabilities	253	462	812
Current liabilities	2 712	2 112	1 916
Net assets	1 137	627	661
Group's share of associated company's net assets	462	216	245
Revenue	3 156	1 802	3 355
Group's share of revenue	1 447	780	1 510
Profit before tax	643	156	110
Group's share of profit before tax	314	60	34
Profit after tax	650	156	43
Group's share of profit after tax	316	226	28

A detailed breakdown of the investments in associated companies is contained in note 37.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
13 LOANS AND RECEIVABLES						
Intragroup loans receivable						
Gross amount receivable	-	-	-	700	650	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 (RF)	-	-	-	318	314	265
Denel Areostructures SOC Ltd	-	-	-	46	-	-
Accumulated impairment	-	-	-	654	650	336
Total non-current non-interest bearing loans and receivables Denel Aerostructures SOC Ltd	-	-	-	318	336	336
Total current interest bearing loans and receivables LMT Holdings SOC Ltd (RF)	-	-	-	314	314	-
	-	-	-	46	-	265
Accumulated impairment						
Balance as at 1 April	-	-	-	650	336	336
Impairment for the year	-	-	-	4	314	-
	-	-	-	654	650	336

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 note 33.1). The amount comprises:

- 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 that 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 that the bank balance often fluctuates from being positive to overdrawn

13.1 DENEL AEROSTRUCTURES SOC LTD

A non interest bearing loan, with no interest to be paid and no fixed repayments terms determined. Management took a decision to impair this loan.

13.2 LMT HOLDINGS SOC LTD (RF)

All amounts payable under this agreement will be payable on 1 November 2018 unless otherwise agreed between the parties. LMT Holdings Soc Ltd (RF) will pay interest 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. Management took a decision to impair this loan.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

13 LOANS AND RECEIVABLES (CONTINUED)

13.2 LMT HOLDINGS SOC LTD (RF) (CONTINUED)

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. In assessing the recoverability of this loan, management considered the cash flow forecast of LMT as well 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 R313 662 882 and the full amount was impaired. In 2018/2019 a further amount of R4.3m was incurred on behalf of LMT and this was further impaired.

14 DEFERRED TAX

	GROUP 2018/19 Rm	GROUP 2017/18 Restated* Rm	GROUP 2016/17 Restated* Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Restated* Rm	COMPANY 2016/17 Restated* Rm
Deferred tax assets	74	22	24	-	-	-
Deferred tax liabilities	(1)	(1)	(1)	-	-	-
	73	21	23	-	-	-
Movement of deferred tax assets and liabilities:						
Balance at 1 April	21	24	47	-	-	-
Business acquired	-	-	-	-	-	-
Income statement (refer note 7)	53	(3)	(23)	-	-	-
	74	21	24	-	-	-
Net deferred tax asset comprises:						
Advance payments received	956	941	1 036	890	904	937
Amounts due to customers for work invoiced, not yet performed	42	83	92	34	82	92
Capital allowances	90	107	35	35	41	28
Limit deferred tax asset to liability	(1 488)	(901)	(955)	(1 300)	(826)	(914)
Provisions	360	236	274	249	187	208
Other tax deductible differences	331	304	212	307	283	213
	291	770	694	215	671	564
Net deferred tax liability comprises:						
Capital allowances	(179)	(227)	(171)	(195)	(175)	(136)
Doubtful debt allowance	(1)	(4)	-	(1)	(4)	-
Prepayments made	(10)	(2)	(10)	(8)	(2)	(9)
Work performed not yet invoiced	(3)	(505)	(469)	-	(482)	(413)
Section 24 allowance on prepayments received	(25)	(3)	(13)	-	-	-
Other taxable differences	-	(7)	(6)	(8)	(7)	(6)
Contracts not yet due or received	(3)	(3)	-	(3)	(3)	-
	(221)	(751)	(669)	(215)	(673)	(564)

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised. Had a full deferred tax asset been recognised on the calculated tax loss, the value of the deferred tax asset at year end would have been R1 672m (2017/18: R1 650m, 2016/17: R1 647m) for the group and R1 567m (2017/18: R1 477m, 2016/17: R1 557m) for the company.

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
15 INVENTORIES						
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:						
Consumable inventory	153	156	143	153	156	142
Finished products	937	791	601	895	762	571
Raw materials and bought-out components	181	385	415	79	159	190
Spare parts	140	117	136	-	-	-
Work-in-progress	1 176	1 734	1 968	1 073	1 562	1 838
	2 587	3 183	3 263	2 200	2 639	2 741
Impairment reconciliation						
Business acquired	409	288	264	232	148	133
Impairment for the year (refer note 3)	-	-	38	-	-	(8)
Impairment reversal for the year (refer note 3)	(12)	(39)	-	(6)	(6)	-
	397	249	302	226	142	125
Amount relating to inventories which was recognised as an expense during the year (refer note 3)	2 944	2 246	4 032	2 521	941	3 097
Inventory purchased during the financial year	2 348	2 806	4 314	2 084	1 806	3 185
Denel reviewed inventory items that were previously treated as slow moving and identified items that will be used in future projects. This resulted in a reversal of the provision for slow moving inventory.	-	5	4	-	5	4
16 TRADE AND OTHER RECEIVABLES						
Financial assets						
Trade receivables	665	1 076	1 459	553	881	1 066
Trade receivables - related parties	-	-	-	74	70	49
Interest receivables	-	1	3	-	-	1
Sundry receivables	87	141	77	53	89	5
Non-financial assets	752	1 218	1 539	680	1 040	1 121
Work performed not yet invoiced	10	48	181	-	37	207
Straight line receivables	28	25	22	28	24	22
Sundry receivables	42	62	78	35	36	41
	80	125	281	63	97	270
	832	1 353	1 820	743	1 137	1 391

	GROUP			COMPANY		
	2018/19	2017/18 Restated*	2016/17 Restated*	2018/19	2017/18 Restated*	2016/17 Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

16 TRADE AND OTHER RECEIVABLES (CONTINUED)

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, we have 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 SA economy.

The expected loss rates are based on the revenue payment profiles over a 60 month period before 1 April 2018. We have applied an assumption that a trade receivable has defaulted when it is more than 90 days outstanding from date invoices are due for payment. As per the IAS 9 expedient, all trade receivable have a lifetime expected credit loss and are disclosed as stage 2 impairments.

In terms of IAS 39, as at 31 March 2018 trade and other receivables to the value of R52.3m were impaired and provided for. The trade receivables in excess of 30 days fell within 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 have occurred that would impairment.

Financial assets	143	50	44	92	44	42
Impairment reconciliation						
Balance at 1 April	52	44	56	44	42	54
Business acquired	-	1	-	-	1	-
Impairment for the year (refer note 3)	55	8	1	21	3	-
Impairment reversal for the year (refer note 3)	(22)	(1)	(4)	(22)	(1)	(3)
Recovered during the year	58	-	-	51	-	-
Written off as non-collectible	-	(2)	(9)	(2)	(1)	(9)
	143	50	44	92	44	42

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

Refer note 40 prior year restatements.

17 ADVANCE PAYMENTS MADE

	365	371	495	344	372	526
Non-current	-	-	-	17	-	-
Current	365	371	495	327	372	526

Advance payments made consists of prepaid expenses and prepayments made to suppliers.

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
18 CONTRACT ASSETS						
Current						
Opening Balance	1 727	1 468	1 424	1 299	908	1 111
Adjustment	39	-	-	39	-	-
IFRS Change	(1 087)	47	(20)	(772)	-	-
Other	95	-	-	-	-	-
Payments received in advance for delivery of performance oblidations	(40)	218	58	-	391	(203)
	734	1 733	1 462	566	1 299	908
19. OTHER FINANCIAL ASSETS AND LIABILITIES						
19.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS						
Derivatives	4	89	102	4	80	34
Foreign exchange contracts	4	89	102	4	80	34
Firm commitments	109	104	107	109	104	107
Foreign exchange options designate as fair value hedges	109	104	107	109	104	107
	113	193	209	113	184	141
19.2 FINANCIAL LIABILITIES AT AMORTISED COST						
Derivatives	17	2	102	10	2	26
Foreign exchange contracts	17	2	102	10	2	26
Firm commitments	24	133	68	24	133	68
Foreign exchange contracts designate as fair value hedges	24	133	68	24	133	68
	41	135	170	34	135	94
20 CASH AND CASH EQUIVALENTS						
20.1 CASH AND CASH EQUIVALENTS CONSIST OF:						
Cash and short term deposits[1]	575	1 277	2 021	470	1 061	1 556
Bank overdraft	(35)	(8)	-	(10)	-	-
	540	1 269	2 021	460	1 061	1 556

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm

20 CASH AND CASH EQUIVALENTS (CONTINUED)

20.2 CASH AND SHORT-TERM DEPOSITS

Cash in bank	210	570	397	139	496	252
Banks	122	373	65	54	302	22
Banks (foreign currency)	88	197	332	85	194	230
Deposits	72	376	797	3	234	477
Local call deposits	72	376	797	3	234	477
Cash restricted for use [2]	293	331	827	328	331	827
Local banks	293	331	827	328	331	827
	575	1 277	2 021	470	1 061	1 556

1. *Cash and cash equivalents are as per the consolidated statements of cash flows, page 116. 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. Company is incorporated in the UAE.*
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, R331m (2017/18: R827m, 2016/17: R1 139m).*

21 SHARE CAPITAL AND SHARE PREMIUM

21.1 AUTHORISED CAPITAL

1 000 000 000 Class A ordinary shares of R1 each	1 000	1 000	1 000	1 000	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						
Share premium	1 225	1 225	1 225	1 225	1 225	1 225
	4 951	4 951	4 951	4 951	4 951	4 951
	6 176	6 176	6 176	6 176	6 176	6 176

At year end, the number of issued Class A ordinary shares were 1 000 000 000 (2017/18: 1 000 000 000, 2016/17: 1 000 000 000) and the number of issued Class B ordinary shares were 225 056 663 (2017/18: 225 056 663, 2016/17: 225 056 663).

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.

22 NON-CONTROLLING INTEREST

Balance at 1 April	(73)	4	19	-	-	-
Non-controlling interest	(27)	(116)	(21)	-	-	-
Preference dividends payable	6	6	6	-	-	-
	(94)	(106)	4	-	-	-

For the Denel group, the non controlling interest in LMT is both quantitatively and qualitatively immaterial.

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
23 LOANS AND BORROWINGS						
Interest bearing loans and borrowings						
Finance lease	4	5	8	-	-	-
Intra group loans	-	-	-	-	298	265
Unsecured loan	180	-	148	184	-	-
Secured mortgage	-	-	1	-	-	-
Unsecured bonds	-	-	689	-	-	689
Other	8	8	7	-	-	1
Non-current portion of interest bearing loans and borrowings	192	13	853	184	298	955
Current portion of interest bearing loans and borrowings	3 240	3 321	2 412	3 543	3 319	2 505
Finance lease	2	3	3	-	-	-
Intra group loans	-	-	-	194	151	190
Unsecured loan	-	-	94	(33)	-	-
Secured loan	-	289	400	-	-	400
Secured mortgage	-	-	1	-	-	1
Unsecured bonds	-	490	685	29	-	685
Commercial paper	194	200	200	-	-	200
Current portion of interest bearing loans and borrowings included under current liabilities	3 044	2 339	1 029	3 353	3 168	1 029
Total interest bearing loans and borrowings	3 432	3 334	3 265	3 727	3 617	3 460

	2018/19			2017/18			2016/17		
	Within one year	One to five years	Total	Within one year	One to five years	Total	Within one year	One to five years	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	

23 LOANS AND BORROWINGS (CONTINUED)

23.1 FINANCE LEASE

Finance lease liabilities are payable as follows:									
Future minimum lease payments	4	8	12	14	21	35	4	10	14
Interest	-	-	-	(1)	(1)	(2)	-	(1)	(2)
Present value of minimum lease payments	4	8	12	13	20	33	3	8	11

During the prior financial year a decision was made to finance a high speed five axis milling machine, called "Zimmerman". The total capital amount was EUR 1.3m (R23m). Interest is charged at a fixed rate of 5.75% p.a., with capital payable half yearly and interest quarterly. The lease agreement determined 10 capital instalments of EUR 114 750 of which the the final capital instalment will be on 4 October 2020, with the final interest payment on 10 December 2020. The total capital amount outstanding as at 31 March 2018 is EUR 573 750 (2017/18: EUR 573 750 (R11.6m), 2016/17: EUR 1.03m (R17.4m)). The carrying amount of the asset as at 31 March 2018 was R21m (2017/18: R21m, 2016/17: R21m). No finance loan existed for the year under review for the company, Denel SOC Ltd.

	COMPANY		
	2018/19	2017/18	2016/17
	Rm	Rm	Rm

24 LOANS TO GROUP COMPANIES

Denel Vehicle Systems (Pty) Ltd - 247 265	247	342	265
Non-current portion - 241 265	241	298	265
Current portion - 6 -	6	44	0
Denel Aerostructurs SOC Ltd - 29 191	29	85	191
Non-current portion - 29 191	29	85	191
Densecure SOC Ltd - 24 -	24	22	0
Current portion	24	22	0
	300	449	456

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%, whilst 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 note 33.1). The amount comprises:

- 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 that 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 overdrawn.

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24 LOANS TO GROUP COMPANIES (CONTINUED)

24.1 SECURED LOAN

Secured loan from Nedbank to Denel Vehicle Systems (Pty) Ltd to the amount of R250m for a four year priod expiring 23 November 2020. Interest is payable every quarter. The interest is linked to JIBAR + 4.35%.

24.2 UNSECURED BONDS

Denel registered a R3bn (2014/15: R2.2bn) Domestic Medium Term Note (DMTN) programme with the JSE which was increased to R4bn 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 R3.2bn (2017/18: R3.03bn). The programme contains cross default (indebtedness of outstanding amount equals or exceeds 1% (2017/18: 1%) of total asset of issuer) and negative pledge clause (which precludes the company from encumbering any assets or revenue of the company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee, guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims which it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2024.

The borrowings have been raised through the issuance of bonds totalling R0bn (2017/18: R0.69bn). The bonds that matured were replaced by commercial paper. The total borrowings, R3.21bn (2017/18: R2.34bn) is backed by government guarantees.

24.3 COMMERCIAL PAPER

During 2018/19 notes to the value of R3.034bn (2017/18: R2.340bn, 2016/17: R964m) were issued as follows:

Rate	Issue date	Maturity date	Rm
2018/19			
3 month JIBAR + 160 bps	11 September 2018	11 September 2019	1 463
3 month JIBAR + 160 bps	21 September 2018	23 September 2019	233
3 month JIBAR + 160 bps	27 September 2018	23 September 2019	30
3 month JIBAR + 220 bps	21 September 2018	21 September 2021	30
3 month JIBAR + 160 bps	28 September 2018	21 September 2019	958
3 month JIBAR + 220 bps	28 September 2018	21 September 2021	50
3 month JIBAR + 280 bps	28 September 2018	21 September 2023	100
3 month JIBAR + 170 bps	11 December 2018	11 December 2019	290
3 month JIBAR + 175 bps	31 January 2019	31 January 2020	30
3 month JIBAR + 175 bps	13 February 2019	31 January 2020	30
			3 214

	GROUP			COMPANY		
	2018/19	2017/18 Restated*	2016/17 Restated*	2018/19	2017/18 Restated*	2016/17 Restated*
	%	%	%	%	%	%

24 LOANS TO GROUP COMPANIES (CONTINUED)

24.4 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

	2018/19 %	2017/18 %	2016/17 %	2018/19 %	2017/18 %	2016/17 %
Finance lease (fixed rate)	9.1	9.3	5.8	-	-	-
Local secured loans (floating rate, refer note 22.2)	-	-	-	6.1	6.3	6.5
Local secured loans (floating rate, refer note 22.3)	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%	JIBAR + 4.35%
Local unsecured loans (fixed rate)	-	JIBAR + 1.50%	JIBAR + 1.20%		JIBAR + 1.50%	JIBAR + 1.20%
Secured mortgage (floating rate)	-	9.0	9.5	-	-	-
Local unsecured loans (fixed rate)	8.8	8.7	8.5	8.8	8.7	8.5
Current bank borrowings (floating rate)	8.9	9.3	9.2	8.9	9.3	9.2

24.5 SUMMARY OF MATURITY OF BORROWINGS

	2018/19 Rm	2017/18 Rm	2016/17 Rm	2018/19 Rm	2017/18 Rm	2016/17 Rm
Maturing:						
Within three months	269	939	496	215	829	477
Between three and twelve months	3 035	2 394	1 916	3 033	2 339	1 838
Between one and two years	-	8	1	-	-	-
Between two and three years	84	3	699	80	-	689
Between three and five years	100	7	153	100	-	-
After five years	8	-	-	-	-	-
	3 496	3 351	3 265	3 428	3 168	3 004

25 ADVANCE PAYMENTS RECEIVED

	2018/19 Rm	2017/18 Rm	2016/17 Rm	2018/19 Rm	2017/18 Rm	2016/17 Rm
Non-current advance payments received	2 153	1 844	2 060	2 144	1 844	2 029
Current advance payments received	1 136	2 047	2 572	1 009	1 873	2 159
Total advance payments received	3 289	3 891	4 632	3 153	3 717	4 188
The carrying amount of the advance payment is expected to be settled as follows:						
Between three and twelve months	72	134	132	11	80	132
Less than one year	878	1 224	1 430	844	1 173	1 114
Between one and two years	231	155	722	190	155	722
Between two and three years	245	554	522	245	485	522
Between three and five years	901	1 824	1 478	901	1 824	468
More than five years	962	-	348	962	-	1 230
	3 289	3 891	4 632	3 153	3 717	4 188

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 (2017/18: ten years, 2016/17: eleven 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.

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	%	%	%	%	%	%
26 PROVISIONS						
26.1 NON-CURRENT PROVISIONS						
Contract risks and onerous contracts	272	-	1	-	-	-
Product warranty and recall	79	80	118	63	64	95
Site restoration	185	205	154	185	205	155
Counter trade	64	52	54	-	-	-
	600	337	327	248	269	250
26.2 CURRENT PROVISIONS						
Contract risks and onerous contracts	147	51	56	144	49	46
Performance guarantees	-	1	30	-	1	30
Product warranty and recall	108	128	123	85	80	184
Site restoration	-	-	7	-	-	7
Counter trade	28	34	30	24	31	20
Insurance provision	9	19	11	-	-	-
Other	-	1	144	-	-	-
	292	234	401	253	161	287
Total provisions	892	571	728	501	430	537

	Contract risks and onerous contracts	Performance guarantees	Product warranty and recall	Site restoration	Counter trade	Insurance	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

26 PROVISIONS (CONTINUED)

26.3 RECONCILIATION

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Counter trade Rm	Insurance Rm	Other Rm	Total Rm
GROUP								
2018/19								
Balance at 1 April	51	1	207	205	85	19	2	570
Business acquired	-	-	-	-	-	-	-	-
Charged to the income statement	374	-	30	-	41	-	5	450
Realised	(7)	-	(29)	-	(3)	(10)	(1)	(50)
Unused amounts reversed	-	(1)	(32)	(42)	(31)	-	-	(106)
Unwinding of discount on provisions	-	-	5	23	-	-	-	28
	418	**-**	**181**	**186**	**92**	**9**	**6**	**892**
2017/18								
Balance at 1 April	57	30	270	219	84	11	144	815
Business acquired	-	-	-	-	-	-	5	5
Charged to the income statement	131	-	30	-	25	8	2	196
Realised	(116)	(29)	(60)	(74)	(1)	-	(145)	(425)
Unused amounts reversed	(20)	-	(34)	-	(23)	-	(4)	(81)
Unwinding of discount on provisions	-	-	-	61	-	-	-	61
	52	**1**	**206**	**206**	**85**	**19**	**2**	**571**
2016/17								
Balance at 1 April	24	55	257	214	121	9	253	933
Business acquired	38	-	22	-	-	2	140	202
Charged to the income statement	(5)	(25)	(51)	(14)	(37)	-	(208)	(340)
Realised	-	-	(38)	-	-	-	(41)	(79)
Unused amounts reversed	-	-	-	-	-	(11)	-	(11)
Unwinding of discount on provisions	-	-	4	19	-	-	-	23
	57	30	194	219	84	-	144	728

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	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Counter trade Rm	Insurance Rm	Other Rm	Total Rm
26 PROVISIONS (CONTINUED)								
26.3 RECONCILIATION (CONTINUED)								
COMPANY								
2018/19								
Balance at 1 April	49	1	145	205	31	-	-	431
Business acquired	-	-	-	-	-	-	-	-
Charged to the income statement	96	-	25	-	24	-	6	151
Realised	(1)	-	(24)	-	-	-	-	(25)
Unused amounts reversed	-	(1)	(8)	(44)	(31)	-	-	(84)
Unwinding of discount on provisions	-	-	5	23	-	-	-	28
	144	**-**	**143**	**184**	**24**	**-**	**6**	**501**
2017/18								
Balance at 1 April	46	30	177	219	20	-	102	594
Business acquired	-	-	-	-	-	-	5	5
Charged to the income statement	100	-	17	-	25	-	1	143
Realised	(87)	(29)	(22)	(74)	-	-	(107)	(319)
Unused amounts reversed	(10)	-	(27)	-	(14)	-	(2)	(53)
Unwinding of discount on provisions	-	-	-	60	-	-	-	60
	49	**1**	**145**	**205**	**31**	**-**	**(1)**	**430**
2017/18								
Balance at 1 April	11	55	193	214	62	-	186	721
Business acquired	38	-	-	-	8	-	97	143
Charged to the income statement	(3)	(25)	(41)	(14)	-	-	(159)	(242)
Realised	-	-	(36)	-	(50)	-	(22)	(108)
Unwinding of discount on provisions	-	-	4	19	-	-	-	23
	46	30	120	219	20	-	102	537

26 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 R389m 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, also refer to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R0.8m (2017/18: R0.7m) for both group and company.

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
27 TRADE AND OTHER PAYABLES						
Financial liabilities						
Trade payables	1 227	1 397	1 013	1 052	1 173	664
	-	-	-	-	101	87
Other accruals	431	828	383	341	738	294
Interest accrued	-	15	35	-	15	35
Non-financial liabilities						
Amounts received in advance	152	236	395	123	202	328
Other non financial liabilities	7	4	(2)	6	2	(4)
Refer note 39.4 w.r.t. prior year restatements of amounts	1 817	2 480	1 824	1 522	2 231	1 404

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

28 CONTRACT LIABILITIES

Reconciliation of contract liabilities

	Group 2018/19 Rm	Group 2017/18 Restated* Rm	Group 2016/17 Restated* Rm	Company 2018/19 Rm	Company 2017/18 Restated* Rm	Company 2016/17 Restated* Rm
Opening Balance	358	444	246	136	186	152
IFRS Change	269	(36)	164	318	-	-
Other	99	-	-	-	-	-
New contracts	-	(50)	34	-	(50)	34
	726	358	444	454	136	186

Revenue on internet sales is recognised when control of the goods has transferred to the customer, which is the point at which the goods are delivered to the customer. The customer pays the transaction price at the point that the online purchase is made. All such payments are recognised as a contract liability until the goods have been delivered to the customer and revenue is recognised.

Revenue relating to maintenance services is recognised over time. The customer pays up front in full for these services, resulting in a contract liability being recognised for revenue relating to the maintenance services at the time of the initial sales transaction. The liability is recognised as revenue over the service period.

A contract liability arises in respect of the group customer loyalty programme. The points provide a benefit to customers that they would not receive without entering into a purchase contract and the promise to provide loyalty points to the customer is therefore a separate performance obligation. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction.

Contract liabilities relating to construction contracts represent balances which 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.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm

29 CONTINGENT LIABILITIES

29.1 GUARANTEES

	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
The following guarantees were issued by the group:						
Advance payment guarantees	3 920	4 507	5 781	3 804	4 393	5 460
Guarantees to banks for credit facilities of subsidiaries	-	478	259	-	39	59
Guarantees to local authorities	30	28	29	16	15	15
Participating guarantees	-	17	4	-	17	4
Performance guarantees	956	949	1 268	808	806	1 047
Other guarantees	564	252	145	249	251	144
Total of guarantees issued	5 470	6 231	7 486	4 877	5 521	6 729
Guarantees issued on behalf of associated companies	(98)	(494)	(317)	(98)	(94)	(117)
Advance payment guarantees	(14)	(11)	(13)	(14)	(11)	(13)
Guarantees to banks for credit facilities of subsidiaries	(39)	(439)	(259)	(39)	(39)	(59)
Performance guarantees	(36)	(34)	(34)	(36)	(34)	(34)
Other guarantees	(9)	(10)	(11)	(9)	(10)	(11)
	5 372	5 737	7 169	4 779	5 427	6 612

29.2 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 R42m (2017/18: Rnil, 2016/17: 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. 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.

29.2 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 2017/18: R2.5bn (2017/18: R2.5bn, 2016/17: R2.5bn) and an estimated contract loss of approximately R1.4bn (2016/17: R1.4bn). 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 was renegotiated to mitigate risk to the company and shareholder.

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29 CONTINGENT LIABILITIES (CONTINUED)

29.3 SITE RESTORATION

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 2018/19: 15% (2017/18: 15%, 2016/17: 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 the provision. Had the contingency been included, the provision would have been increased by 2018/19: R33.9 (2017/18: R31.6m, 2016/17: R31m) for both, group and company.

29.4 COUNTERTRADE

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60% and 100% of the export sales contract value.

These countertrade obligations can be fulfilled in one or a combination of the following ways:

- Production work share and technology transfer.
- Procurement of products and services from suppliers in the buyers' country.
- Participation in a business venture in the buyers' 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 R93m (2017/18: R111m, 2016/17: R75m) to enable the contracting country to raise penalties on non fulfilment of countertrade obligations.

The group has entered into local defence contracts which require the group to impose countertrade obligations in favour of SA on all imported content. The group has, therefore, entered into back to back agreements with the suppliers to ensure that this obligation is offset. The group received bank guarantees from all the said suppliers which were ceded to the client.
The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

The table on the next page summarises the group's countertrade position.

29 CONTINGENT LIABILITIES (CONTINUED)

29.4 COUNTERTRADE (CONTINUED)

	2018/19			2017/18			2016/17		
	Export contracts Rm	Local defense contracts Rm	Total Rm	Export contracts Rm	Local defense contracts Rm	Total Rm	Export contracts Rm	Local defense contracts Rm	Total Rm
Countertrade obligation									
Total countertrade obligation	8 507	7 930	16 437	4 460	6 963	11 423	7 134	5 176	12 310
Obligation discharged	(6 679)	(2 087)	(8 766)	(2 439)	(1 730)	(4 169)	(1 181)	(922)	(2 103)
Outstanding obligation	1 828	5 843	7 671	2 021	5 233	7 254	5 953	4 254	10 207
To be settled by third party	-	(3 789)	(3 789)	-	(3 429)	(3 429)	-	(2 227)	(2 227)
Net obligation of the group	1 828	2 054	3 882	2 021	1 804	3 825	5 953	2 027	7 980
Penalties									
Maximum penalty for non-compliance	167	292	459	177	262	439	566	213	779
Third party obligation	-	(189)	(189)	-	(171)	(171)	-	(111)	(111)
Net group exposure	167	103	270	177	91	268	566	102	668
Guarantees issued									
Group issued	11	96	107	55	85	140	110	-	110
Third party guarantees	-	23	23	-	20	20	-	21	21
	11	119	130	55	105	160	110	21	131
Provision to settle obligation	-	-	-	1	-	1	84	-	84

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	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
		Restated*	Restated*		Restated*	Restated*
	Rm	Rm	Rm	Rm	Rm	Rm
30 CASH GENERATED FROM/(USED IN) OPERATIONS						
Loss before taxation	(1 801)	(1 045)	(117)	(2 068)	(1 128)	(213)
Adjustments for:						
Depreciation and amortisation	31	53	65	20	34	46
Gains on disposals, scrappings and settlements of assets and liabilities	(425)	(226)	(154)	-	-	-
Interest income	(34)	(70)	(80)	(27)	(96)	(92)
Finance costs	374	376	368	397	394	375
Net impairments and movements in credit loss allowances	121	236	37	736	-	-
Movements in retirement benefit assets and liabilities	1	1	(4)	-	1	(3)
Movements in provisions	58	(168)	422	92	(126)	(125)
Other non-cash	(60)	(4)	737	401	313	(1 515)
Changes in working capital:						
Inventories	596	80	(282)	439	102	(88)
Trade and other receivables	521	467	620	394	254	-
Advance payments made	6	124	(443)	28	154	(371)
Trade and other payables	(663)	656	(201)	(709)	827	198
Contract liabilities	368	(86)	198	318	(50)	(253)
	(907)	394	1 166	21	679	(2 041)
31 CAPITAL COMMITMENTS						
Approved and contracted for						
Property, plant and equipment	3	124	19	-	106	6
Land and buildings	-	5	1	-	5	1
Computer equipment	-	-	2	-	-	1
Machinery and equipment	1	117	16	-	99	4
Vehicles	-	2	-	-	2	-
Work in progress	2	2	-	-	-	-
Investment properties	13	-	-	12	-	-
	16	126	19	12	106	6

32 NON-CANCELLABLE LEASES

OPERATING LEASES

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

	Buildings Rm	Computer equipment Rm	Ofice furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
GROUP						
2018/19						
Less than one year	56	1	5	1	-	63
Between one and five years	177	-	-	-	-	177
More than five years	24	-	-	-	-	24
	257	**1**	**5**	**1**	**-**	**264**
2017/18						
Less than one year	66	2	8	3	-	79
Between one and five years	301	5	12	5	-	323
More than five years	491	-	-	-	-	491
	858	**7**	**20**	**8**	**-**	**893**
2016/17						
Less than one year	63	4	3	3	-	73
Between one and five years	230	1	12	4	-	247
More than five years	22	-	-	-	-	22
	315	**5**	**15**	**7**	**-**	**342**

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	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
32 NON-CANCELLABLE LEASES (CONTINUED)						
OPERATING LEASES (CONTINUED)						
COMPANY						
2018/19						
Less than one year	59	1	5	-	-	65
Between one and five years	169	-	-	-	-	169
More than five years	24	-	-	-	-	24
	252	**1**	**5**	**-**	**-**	**258**
2017/18						
Less than one year	66	2	8	1	-	77
Between one and five years	301	5	12	4	-	322
More than five years	491	-	-	-	-	491
	858	**7**	**20**	**5**	**-**	**890**
2016/17						
Less than one year	63	3	4	2	-	72
Between one and five years	230	1	12	3	-	246
More than five years	22	-	-	-	-	22
	315	**4**	**15**	**5**	**-**	**340**

Non cancellable leases of buildings includes the Kempton Park site which Denel sold during 2007 to ACSA's subsidiary, Precinct 2A, on a sale and leaseback basis. The original lease period was five years with an option to extend for a further two periods of five years each, which Denel exercised during 2012. The lease payments are fixed for the ten year period and quarterly lease payments are based on the purchase value of the property discounted at a fixed interest rate of 9.25% (2017/18: 9.25%). Should Denel extend the lease beyond the current ten year period, the lease payments will be based on market related rates.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	R'000	R'000	R'000	R'000	R'000	R'000
33 RELATED PARTIES						
Short term employee benefits	25	23	61	25	13	48
Post employee benefits	0	1	4	-	1	3
Share base payments	-	7	-	-	8	-
Termination benefits	-	-	11	-	-	11
	25	31	76	25	22	62

Compensation paid to key management personnel includes amounts paid or accrued to entity executives.

	2018/19	2017/18	2016/17
	R'000	R'000	R'000
33 RELATED PARTIES (CONTINUED)			
Directors' fees paid or accrued to the non executive directors of the group			
Mr LD Mantsha*	-	859	891
Ms M Kgomongoe*	-	336	367
Ms P Mahlangu*	-	306	279
Ms R Mokoena*	-	23	223
Mr TJ Msomi*	-	74	255
Lt Gen TM Nkabinde (rtd)*	-	313	290
Ms KPS Ntshavheni*	-	360	-
Ms N Mandindi*	-	-	96
Mr NJ Motseki*	-	-	204
Ms M W Hlahla	941	-	-
Mr Z Kunene	207	-	-
Prof. T Marwala	208	-	-
Lt Gen. (rtd) T T Matanzima	112	-	-
Mrs GT Serobe	616	-	-
Mr M T Sadik	842	-	-
Ms S R Rabkin	665	-	-
Dr S P Sibisi	585	-	-
Ms N Siyotula	504	-	-
Mr T H Magazi	693	-	-
Mr M M Mnisi	385	-	-
Ms M K Lehloenya	255	-	-
Dr H Nel	515	-	-
Gen. (rtd) S Nyanda	454	-	-
	6 982	2 271	2 605

* Resigned as at 30 April 2018

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33 RELATED PARTIES (CONTINUED)

Amounts paid/accrued to executives of the group

	2018/19								2017/18	2016/17
	Salaries	Pension fund contri-bution	Medical aid contribution	Other	Company contribution	Short-term incentive	Lump sum	Total	Total	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive directors										
Mr D du Toit	885	37	31	74	66	-	2 124	3 217	-	6 407
Mr ZN Ntshepe	721	22	15	109	40	-	-	907	3 513	9 827
Mr ZM Mhlwana	1 746	62	66	187	111	-	-	2 172	7 023	-
Sub-total	**3 352**	**121**	**112**	**370**	**217**	**-**	**2 124**	**6 296**	**10 536**	**16 234**
Prescribed officers										
Ms VQ Qinga	2 239	82	102	187	146	-	-	2 756	2 093	3 022
Mr T Klenyhans	2 463	96	146	531	170	-	-	3 406	3 320	2 779
Mr DTT Mbele	2 198	80	64	183	142	-	-	2 667	3 999	4 097
Ms V Xaxa	1 406	50	53	288	88	-	-	1 885	-	-
Mr O Mothudi	1 155	50	72	96	89	-	-	1 462	-	-
Ms N Davies	-	-	-	-	-	-	-	-	2 058	
Sub-total	**9 461**	**358**	**437**	**1 285**	**635**	**-**	**-**	**12 176**	**15 936**	**28 661**
Total	**12 813**	**479**	**549**	**1 655**	**852**	**-**	**2 124**	**18 472**	**26 472**	**44 895**

34 FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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:

- Credit risk;
- Liquidity risk; and
- 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 Audit committee, who is responsible for the development and monitoring of the group's risk management policies. The committee meets three times a year and regularly reports to the board on its activities. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The roles and responsibilities of the Audit committee include:

- 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; and
- Recommend to the board for approval of the long term funding requirements.

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

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34.1 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 on 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 (includes but is not limited to payment history); and
- Obtain the most recent credit rating from the group's treasury department, of the country that the potential customer operates in. Countries are graded by major international banks and these grading 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 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. Counterparties are assessed based on their official Fitch ratings. Counterparties are approved by the Audit 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+ shortterm ratings, AA long term ratings and a minimum of R2bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1+ rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the GCFO.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 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:

	2018/19			2017/18			2016/17		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP									
Trade receivables [1]	96	571	667	250	1 211	1 461	237	1 983	2 220
Government and related units	18	116	134	82	391	473	141	245	386
Non-government units	78	455	533	168	820	988	96	1 738	1 834
Sundry receivables [1]	77	-	77	131	-	131	100	1	101
Government and related units	38	-	38	82	-	82	57	1	58
Non-government units	39	-	39	49	-	49	43	-	43
Interest receivables [1]	-	-	-	1	-	1	-	-	-
Government and related units	-	-	-	1	-	1	-	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Loans and receivables (refer note14)	-	-	-	-	-	-	-	-	-
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits [2]	584	8	592	1 072	197	1 269	-	-	-
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	584	8	592	1 072	197	1 269	-	-	-
	757	579	1 336	1 454	1 408	2 862	337	1 984	2 321

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 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:

	2018/19			2017/18			2016/17		
	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm
COMPANY									
Trade receivables [1]	123	429	552	135	1 032	1 167	226	1 603	1 829
Government and related units	48	116	164	77	391	468	134	245	379
Non-government units	75	313	388	58	641	699	92	1 358	1 450
Sundry receivables [1]	53	-	53	88	1	89	42	1	43
Government and related units	14	-	14	42	1	43	-	1	1
Non-government units	39	-	39	46	-	46	42	-	42
Interest receivables [1]	-	-	-	-	-	-	1	-	1
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	-	-	-	1	-	1
Loans and receivables (refer note14)	-	-	-	-	-	-	265	-	265
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	-	-	-	265	-	265
Cash and short-term deposits [2]	457	85	465	867	228	1 095	1 326	(35)	1 291
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	457	85	465	867	228	1 095	1 326	(35)	1 291
	633	514	1 070	1 090	1 261	2 351	1 860	1 569	3 429

1. *Refer note 16.*
2. *Refer note 20.*

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 CREDIT RISK (CONTINUED)

Ageing

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

	2018/19				2017/18				2016/17			
	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
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Trade receivables [1]	523	288	(146)	665	1 460	58	(58)	1 460	2 221	43	(43)	2 221
Not past due	121	61	(37)	145	398	-	-	398	1 173	1	(1)	1 173
GROUP												
Less than 30 days	22	23	(3)	42	61	-	-	61	198	-	-	198
30 to 60 days	37	14	(1)	50	50	-	-	50	126	-	-	126
61 to 90 days	11	5	-	16	65	9	(9)	65	20	-	-	20
More than 90 days	332	185	(105)	412	886	49	(49)	886	704	42	(42)	704
Sundry receivables [1]	85	1	(1)	85	132	1	(1)	132	101	-	-	101
Not past due, not impaired	62	-	-	62	124	-	-	124	97	-	-	97
Past due												
Less than 30 days	18	-	-	18	6	-	-	6	-	-	-	-
More than 90 days	5	1	(1)	5	2	1	(1)	2	4	-	-	4
Interest receivables [1]	-	-	-	-	1	-	-	1	3	-	-	3
Not past due, not impaired	-	-	-	-	1	-	-	1	3	-	-	3
Past due												
Cash and short-term deposits [2]	592	-	-	592	1 269	-	-	1 269	2 021	-	-	2 021
Not past due, not impaired	592	-	-	592	1 269	-	-	1 269	2 021	-	-	2 021
	1 200	289	(147)	1 342	2 862	59	(59)	2 862	4 346	43	(43)	4 346

1. *Refer note 16.*
2. *Refer note 20.*

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 CREDIT RISK (CONTINUED)

Ageing (continued)

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

	2018/19				2017/18				2016/17			
	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
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Trade receivables [1]	376	268	(93)	551	1 167	51	(51)	1 167	1 827	42	(42)	1 827
Not past due	78	60	(3)	135	258	-	-	258	942	1	(1)	942
COMPANY												
Less than 30 days	16	22	(3)	35	33	-	-	33	151	-	-	151
30 to 60 days	31	14	-	45	16	-	-	16	118	-	-	118
61 to 90 days	9	5	-	14	54	9	(9)	54	9	-	-	9
More than 90 days	242	167	(87)	322	806	42	(42)	806	607	41	(41)	607
Sundry receivables [1]	53	-	-	53	89	-	-	89	43	1	(1)	43
Not past due, not impaired	33	-	-	33	82	-	-	82	39	-	-	39
Past due												
30 to 60 days	17	-	-	17	6	-	-	6	-	-	-	-
More than 90 days	3	-	-	3	1	-	-	1	4	1	(1)	4
Interest receivables [1]	-	-	-	-	1	-	-	1	3	-	-	3
Not past due, not impaired	-	-	-	-	1	-	-	1	3	-	-	3
Past due												
Cash and short-term deposits [2]	465	-	-	465	1 269	-	-	1 269	2 021	-	-	2 021
Not past due, not impaired	465	-	-	465	1 269	-	-	1 269	2 021	-	-	2 021
Past due												
	894	268	(93)	1 069	2 526	51	(51)	2 526	3 894	43	(43)	3 894

1. *Refer note 15.*
2. *Refer note 17.*

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 CREDIT RISK (CONTINUED)

	2018/19 Rm	2017/18 Rm	2016/17 Rm	2018/19 Rm	2017/18 Rm	2016/17 Rm
Security held over non-derivative financial assets						
Irrevocable Letters of Credit confirmed by foreign banks	182	147	332	182	147	332

34.2 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 cost. This risk may arise when there are mismatches between receipts and payments. As well as when where there are limited funds available to fund that gap.

The group has a centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash 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 received government guarantees of R4.4nm (2017/18:R3.4bn) 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 note).

	2018/19 Rm	2017/18 Rm	2016/17 Rm	2018/19 Rm	2017/18 Rm	2016/17 Rm
SA rand (ZARm)	194	139	134	194	139	134
US dollar (US$m)	-	-	-	-	-	-

Undrawn credit facilities

The credit banking facilities are unsecured, bear interest at a rate linked to prime and are subject to annual review. The facilities are in place to ensure liquidity.

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.2 LIQUIDITY RISK (CONTINUED)

		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
	Rm	Rm	Rm	Rm	Rm	Rm
GROUP						
2018/19						
Interest bearing loans and borrowings	3 495	3 420	194	3 035	184	8
Trade and other payables	1 711	1 689	546	1 126	-	-
Derivative financial liabilities	17	17	3	14	-	-
Guarantees	-	-	-	-	-	-
	5 192	5 126	743	4 175	184	8
2017/18						
Interest bearing loans and borrowings	3 342	3 342	930	2 394	18	-
Trade and other payables	2 242	2 592	794	1 577	-	-
Derivative financial liabilities	2	2	2	1	-	-
Guarantees	-	-	-	-	-	-
	5 586	5 936	1 726	3 972	18	-
2016/17						
Interest bearing loans and borrowings	3 265	3 265	496	1 916	853	-
Trade and other payables	1 613	1 847	891	713	-	-
Derivative financial liabilities	102	26	16	10	-	-
Guarantees	-	-	-	-	-	-
	4 980	5 138	1 403	2 639	853	-

34 FINANCIAL RISK MANAGEMENT (CONTINUED)
34.2 LIQUIDITY RISK (CONTINUED)

	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
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY								
2018/19								
Interest bearing loans and borrowings	3 412	3 407	194	3 033	180	-	-	-
Trade and other payables	1 434	1 422	577	845	-	-	-	-
Derivative financial liabilities	10	10	-	10	-	-	-	-
Guarantees	-	-	-	-	-	-	-	-
	4 856	4 839	771	3 888	180	-	-	-
2017/18								
Interest bearing loans and borrowings	3 168	3 168	829	2 339	-	-		
Trade and other payables	2 029	2 231	1	1 453	-	-		
Derivative financial liabilities	2	2	2	1	-	-		
Guarantees	-	-	-	-	-	-		
	5 199	5 401	832	3 793	-	-		
2016/17								
Interest bearing loans and borrowings	3 004	3 004	477	1 838	689	-		
Trade and other payables	1 291	1 475	649	633	-	-		
Derivative financial liabilities	26	26	16	10	-	-		
Guarantees	-	-	-	-	-	-		
	4 321	4 505	1 142	2 481	689	-		

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 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 GFD and executive committee on a weekly and monthly basis respectively.

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

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to upward interest rate movements on loans and borrowings. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The Audit committee determines the interest rate risk strategy based on economic expectations and reports received from the treasury department. Treasury department monitors interest rates on a daily basis and the policy is to maintain short term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

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

	GROUP 2018/19 Rm	GROUP 2017/18 Rm	GROUP 2016/17 Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm
Bank overdraft	10	-	-	10	-	-
Cash and short term deposits	48	22	49	40	10	49
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	10	52	-	10	52
Loans and borrowings	14	17	603	-	-	585
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

	GROUP 2018/19 Rm	GROUP 2017/18 Rm	GROUP 2016/17 Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm
Bank overdraft	-	-	-		-	-
Cash and short term deposits	510	1 247	1 607	420	1 058	1 507
Commercial paper	-	-	148	-	-	148
Loans and borrowings	3 418	3 315	2 368	3 419	3 158	2 367
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

	GROUP 2018/19 Rm	GROUP 2017/18 Rm	GROUP 2016/17 Rm	COMPANY 2018/19 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm
Net effect on profit and loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.	15	10	4	13	10	4

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

CURRENCY RISK

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

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

Bank accounts of foreign offices are not hedged. Proceeds received from export contracts that would be used to pay foreign suppliers on the same contract are natural hedged by keeping funds in customer foreign currency (CFC) accounts. A CFC account is a transactional account denominated in a foreign currency, i.e. any currency other than rand. It is available in all major currencies and is a useful mechanism for managing foreign currency receipts and payments.

Net gains/(loss) on financial instruments are disclosed in notes 3, 4 and 5.

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUED)

GROUP

	2018/19 USD m	2017/18 EUR m	2016/17 USD m	2018/19 EUR m	2017/18 USD m	2016/17 EUR m
Assets	42	104	63	18	92	533
Trade receivables	11	36	44	16	77	42
Controlled foreign currency accounts (CFC)	-	10	4	1	6	2
Firm commitments (export revenue)	31	58	15	1	9	489
Liabilities	(6)	(68)	(31)	(13)	(28)	(27)
Trade payables	(6)	(46)	(22)	(9)	(1)	(11)
Firm commitments (import)	-	(22)	(9)	(4)	(27)	(16)
Gross balance sheet exposure	36	36	32	5	64	506
Forecast transactions (revenue)	31	58	15	2	7	358
Forecast transactions (purchases)	-	-	(5)	(4)	(19)	(16)
Gross balance sheet exposure	67	42	108	2	52	503
Export revenue	(31)	42	3	(1)	(9)	(221)
Imports	-	(58)	(15)	4	19	(489)
Net exposure	36	58	36	5	62	375

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	2018/19 USD m	2017/18 EUR m	2016/17 USD m	2018/19 EUR m	2017/18 USD m	2016/17 EUR m

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUED)

COMPANY

	2018/19 USD m	2017/18 EUR m	2016/17 USD m	2018/19 EUR m	2017/18 USD m	2016/17 EUR m
Assets	78	78	54	79	80	533
Trade receivables	43	29	39	69	69	42
Controlled foreign currency accounts (CFC)	6	9	3	1	1	2
Firm commitments (export revenue)	29	40	12	9	10	489
Liabilities	(12)	(67)	(29)	(13)	(13)	(27)
Trade payables	(4)	(45)	(20)	(6)	(6)	(11)
Firm commitments (import)	(8)	(22)	(9)	(7)	(7)	(16)
Gross balance sheet exposure	66	11	25	66	67	506
Forecast transactions (revenue)	27	40	12	8	8	358
Forecast transactions (purchases)	(7)	-	(4)	(7)	(7)	(16)
Gross balance sheet exposure	86	51	33	67	68	848
Export revenue	(29)	(40)	(12)	(10)	(10)	(489)
Import	8	22	9	4	7	16
Net exposure	65	33	30	65	65	375

Strengthening 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.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUE)

FOREIGN CURRENCY DERIVATIVES

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

	2018/19			2017/18			2016/17		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP									
Revenue contracts									
Euro (EUR)	5 440 047	-	5 440 047	15 011 978	225	218	8 785 769	87	78
Sterling (GBP)	-	-	-	-	-	-	57 977	1	-
Switzerland (CHF)	-	-	-	2 450 046	30	28	513 143	7	6
US Dollar (USD)	9 713 448	-	-	58 578 490	752	674	36 033 191	8 960	9 889
		-	5 440 047		1 007	920		9 055	9 973
Purchase contracts									
Euro (EUR)	-	-	-	9 783 591	147	147	19 147 023	453	506
Sterling (GBP)	-	-	-	1 027 807	18	17	2 315 530	25	31
Switzerland (CHF)	-	-	-	91 378	-	-	191 678	1	1
US Dollar (USD)	-	-	-	22 088 741	264	264	8 447 633	139	161
		-	-		429	428		618	699
COMPANY									
Revenue contracts									
Euro (EUR)	-	-	-	11 907 253	177	173	9 902 618	87	78
Sterling (GBP)	-	-	-	-	-	-	79 700	1	-
Switzerland (CHF)	-	-	-	2 450 046	30	28	513 143	7	6
US Dollar (USD)	-	-	-	39 503 414	520	448	2 863 527	400	401
					727	649		495	485
Purchase contracts									
Euro (EUR)	-	-	-	8 756 809	131	132	7 164 023	106	106
Sterling (GBP)	-	-	-	1 027 807	18	17	487 401	8	8
Switzerland (CHF)	-	-	-	91 378	-	-	191 678	1	1
US Dollar (USD)	-	-	-	21 968 653	262	262	7 530 173	125	125
	-	-	-	411	411	-	240	240	3 419

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUE)

MATURITY TABLE

	2018/19			
	One year Rm	Two years Rm	Three to five years Rm	Total Rm
GROUP				
Foreign currency derivatives				
Revenue contracts				
Euro (EUR)	2 132 266	-	-	2 132 266
Sterling (GBP)	21 521	-	-	21 521
Switzerland (CHF)	151 290	-	-	151 290
US Dollar (USD)	56 535 296	979 355	-	57 514 651
Purchase contracts				
Euro (EUR)	4 507 499	-	-	4 507 499
Sterling (GBP)	284 089	-	-	284 089
Switzerland (CHF)	41 778	-	-	41 778
US Dollar (USD)	332 967	-	-	332 967
COMPANY				
Foreign exchange contracts				
Revenue contracts				
Euro (EUR)	921 907	-	-	921 907
Sterling (GBP)	-	-	-	-
Switzerland (CHF)	151 290	-	-	151 290
US Dollar (USD)	29 549 972	-	-	29 549 972
Purchase contracts				
Euro (EUR)	3 722 203	-	-	3 722 203
Sterling (GBP)	284 089	-	-	284 089
Switzerland (CHF)	41 778	-	-	41 778
US Dollar (USD)	-	-	-	-

Firm commitments

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.

2017/18				2016/17			
One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Rm	Rm	Rm	Rm	Rm			
15 011 978	-	-	15 011 978	8 785 769	-	-	8 785 769
21 521	-	-	21 521	57 977	-	-	57 977
2 450 046	-	-	2 450 046	513 143	-	-	513 143
58 578 490	-	-	58 578 490	33 490 757	2 542 434	-	36 033 191
9 783 591	-	-	9 783 591	19 147 023	-	-	19 147 023
1 027 807	-	-	1 027 807	2 315 530	-	-	2 315 530
91 378	-	-	91 378	191 678	-	-	191 678
22 088 741	-	-	22 088 741	8 447 633	-	-	8 447 633
11 907 253	-	-	11 907 253	9 902 618	-	-	9 902 618
-	-	-	-	79 700	-	-	79 700
2 450 046	-	-	2 450 046	513 143	-	-	513 143
39 503 414	-	-	39 503 414	2 863 527	-	-	2 863 527
8 756 809	-	-	8 756 809	7 164 023	-	-	7 164 023
1 027 807	-	-	1 027 807	487 401	-	-	487 401
91 378	-	-	91 378	191 678	-	-	191 678
21 968 653	-	-	21 968 653	7 530 173	-	-	7 530 173

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	Foreign currency notional amount (m)								
	2018/19			2017/18			2016/17		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
34 FINANCIAL RISK MANAGEMENT (CONTINUED)									
34.3 MARKET RISK (CONTINUED)									
GROUP									
FOREIGN CURRENCIES									
Export transactions									
Switzerland (CHF)	-	-	-	-	-	-	5	-	5
US Dollar (USD)	-	-	-	-	-	-	21	289	310
		-	-		-	-		289	315
Firm commitments relating to foreign exchange contracts									
Euro (EUR)		-	-		-	-	-	-	-
Sterling (GBP)		-	-		-	-	-	-	-
Switzerland (CHF)		-	-		-	-	-	-	-
US Dollar (USD)		-	-		-	-	-	-	-
		-	-		-	-	-	-	-
Firm commitments relating to foreign exchange options									
Import transactions									
Euro (EUR)		-	-	-	-	-	6	90	96
Sterling (GBP)		-	-	-	-	-	-	2	2
Switzerland (CHF)		-	-	-	-	-	-	1	1
US Dollar (USD)		-	-	-	-	-	-	5	5
		-	-	-	-	-	-	98	104

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

COMPANY

MATURITY

	Foreign currency notional amount (m)											
	2018/19				2017/18				2016/17			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Export contracts												
US Dollar (USD)	-	-	-	-	-	-	-	-	-	-	-	21
Firm commitments relating to foreign exchange contracts												
Euro (EUR)	-	-	-	-	-	-	-	-	-	-	-	-
Sterling (GBP)	-	-	-	-	-	-	-	-	-	-	-	-
Switzerland (CHF)	-	-	-	-	-	-	-	-	-	-	-	-
US Dollar (USD)	-	-	-	-	-	-	-	-	-	-	-	-

Firm commitments relating to foreign exchange options

Export transactions

Firm commitments relating to foreign exchange contracts

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

Import transactions

Firm commitments relating to foreign exchange contracts

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: Exoports contracts: £27 800 matures within one year.*

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	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
34 FINANCIAL RISK MANAGEMENT (CONTINUED)					
34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
The categorisation of each class of financial asset and liability, including their fair values, are included below:					
GROUP					
2018/19					
Cash and cash equivalents	610	-	-	610	610
Financial assets					
Loans and receivables (refer note 14)	-	-	-	-	-
Other financial assets (refer note 19.1)	-	-	113	113	113
Trade and other receivables (refer note 17)	832	-	-	832	832
	1 442	-	113	1 555	1 555
Financial liabilities					
Associated companies: Loans	-	(3 495)	-	(3 495)	(3 495)
Other financial liabilities	-	(41)	-	(41)	(41)
Preference dividends payable	-	(6)	-	(6)	(6)
	-	(3 542)	-	(3 542)	(3 542)
Net financial assets/(liabilities)	1 442	(3 542)	113	(1 987)	(1 987)

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
2017/18					
Cash and cash equivalents	1 269	-	-	1 269	1 269
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	193	193	193
Trade and other receivables	1 353	-	-	1 353	1 353
	2 622	**-**	**193**	**2 815**	**2 815**
Financial liabilities		-		-	-
Associated companies: Loans	-	(3 342)	-	(3 342)	(3 342)
Other financial liabilities	-	(135)	-	(135)	(135)
Preference dividends payable	-	(6)	-	(6)	(6)
	-	**(3 483)**	**-**	**(3 483)**	**(3 483)**
Net financial assets/(liabilities)	**2 622**	**(3 483)**	**193**	**(668)**	**(668)**
2016/17					
Cash and cash equivalents	2 021	-	-	2 021	2 021
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	209	209	209
Trade and other receivables	1 820	-	-	1 820	1 820
	3 841	-	209	4 050	4 050
Cash and cash equivalents					
Financial assets		-		-	-
Loans and receivables	-	(3 265)	-	(3 265)	(3 265)
Financial assets at fair value through profit or loss	-	(170)	-	(170)	(170)
Trade and other receivables	-	(6)	-	(6)	(6)
	-	(3 441)	-	(3 441)	(3 441)
Net financial assets/(liabilities)	3 841	(3 441)	209	609	609

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit and loss Rm	Carrying amount Rm	Fair value Rm
COMPANY					
2018/19					
Cash and cash equivalents	470	-	-	470	470
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	113	113	113
Trade and other receivables	743	-	-	743	743
	1 213	**-**	**113**	**1 326**	**1 326**
Financial liabilities					
Interest bearing borrowings	-	(3 428)	-	(3 428)	(3 428)
Other financial liabilities	-	(34)	-	(34)	(34)
	-	(3 462)	-	(3 462)	(3 462)
Net financial assets/(liabilities)	**1 213**	**(3 462)**	**113**	**(2 136)**	**(2 136)**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit and loss Rm	Carrying amount Rm	Fair value Rm
2017/18					
Cash and cash equivalents					
Financial assets	1 061	-	-	1 061	1 061
Loans and receivables					
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	-	-	184	184	184
Subsidiaries: Loans and receivables (refer note 12)	1 198	-	-	1 137	1 137
	2 200	**-**	**184**	**2 382**	**2 382**
Financial liabilities					
Interest bearing borrowings					
Other financial liabilities	-	(3 168)	-	(3 168)	(3 168)
	-	(135)	-	(135)	(135)
	-	(3 303)	-	(3 303)	(3 303)
Net financial assets/(liabilities)	**2 198**	**(3 303)**	**184**	**(921)**	**(921)**
2016/17					
Cash and cash equivalents	1 556	-	-	1 556	1 556
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	141	141	141
Trade and other receivables	1 391	-	-	1 391	1 391
	2 947	-	141	3 088	3 088
Financial liabilities					
Interest bearing borrowings	-	(3 003)	-	(3 003)	(3 003)
Other financial liabilities	-	(94)	-	(94)	(94)
	-	(3 097)	-	(3 097)	(3 097)
Net financial assets/(liabilities)	2 947	(3 097)	141	(9)	(9)

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 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 are 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 which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 19.1 . 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 note 1.4.6.	Refer 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 marked 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 note 1.4.18.	Refer note 1.4.18.	Level 3
Trade and other payables	Refer note 1.4.4. **	Refer note 1.4.4. **	Level 2
Trade and other receivables	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2
Financial liabilities			
Derivative financial liabilities	Refer derivative financial assets in this table.	Refer derivative financial assets in this table.	Level 2
Loans and borrowings	Refer note 1.4.4.	Refer note 1.4.4.	Level 2
Trade and other payables	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2

All other financial assets and liabilities carrying amount approximates 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.*

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
GROUP						
2018/19						
Investment properties	844	844	-	-	844	844
Other financial assets	113	113	-	-	113	113
Assets measured at fair value						
Cash and cash equivalents	610	610	-	610	-	610
Assets not measured at fair value						
Trade and other receivables	788	788	-	788	-	788
	1 511	1 511	-	1 398	113	1 511
Loans and receivables	(192)	(192)	-	-	(192)	(192)
Other financial liabilities	(41)	(41)	-	-	(41)	(41)
Liabilities measured at fair value						
Loans and borrowings	(3 303)	(3 303)	-	-	(3 303)	(3 303)
Preference dividends payable	(6)	(6)	-	-	(6)	(6)
	(3 542)	(3 542)	-	-	(3 542)	(3 542)
Liabilities not measured at fair value						
Net value	(1 187)	(1 187)	-	1 398	(2 585)	(1 187)

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
GROUP						
2017/18						
Investment properties	794	794	-	-	794	794
Assets measured at fair value						
Cash and cash equivalents	1 269	1 269	-	1 269	-	1 269
Assets not measured at fair value						
Trade and other receivables	1 250	1 250	-	1 250	-	1 250
	2 519	**2 519**	**-**	**2 519**	**-**	**2 519**
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 payable	(6)	(6)	-	-	(6)	(6)
	(3 474)	(3 474)	-	-	(3 474)	(3 474)
Liabilities not measured at fair value						
Net value	**(161)**	**(161)**	**-**	**2 519**	**(2 680)**	**(161)**
2015/16						
Investment properties	728	728	-	-	728	728
Other financial assets	209	209	-	-	209	209
Assets measured at fair value						
Cash and cash equivalents	2 021	2 021	-	2 021	-	2 021
Assets not measured at fair value						
Trade and other receivables	1 820	1 820	-	1 820	-	1 820
	4 050	4 050	-	3 841	209	4 050
Loans and receivables	(853)	(853)	-	-	-	-
Liabilities measured at fair value						
Liabilities not measured at fair value	(853)	(853)	-	-	-	-
Net value	3 925	3 925	-	3 841	937	4 778

35 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 97 for more information.

During the year under review, the group posted a loss of R1.72bn as a result of liquidity constraints and a decline in operational activity. This has eroded the equity of the group to an insolvency 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 in implementing its turnaround strategy which will improve the cost structure, project execution and the liquidity constraints. On this date Denel, still awaits for the Shareholder to respond on Denel's application for recapitilsation.

There were no changes in the group's approach to capital management during the year.

The company is not subject to externally imposed capital requirements. However, one of the company's subsidiaries, Densecure SOC Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements. The minimum capital requirements applicable to Densecure SOC Ltd were maintained at all times during the year. In accordance with SA insurance legislation and regulations, the company is required to maintain a minimum Capital Adequacy Requirement (CAR) ratio of 1. This means the company is required to hold regulatory admissible net assets of greater than 1 to the solvency capital requirement, as at the reporting date.

36 POST-RETIREMENT OBLIGATIONS

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

36.1 DENEL MEDICAL BENEFIT TRUST

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, R23m (2017/18: R26m) 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 2018 indicated the trust is over funded. The DMBT's expected long term investment return was based on the yields of the 10.8 year yield from the South African zero coupon government bond as at 1 April 209 and a real discount rate of 3.32%. Whilst 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, there is a plan assets 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 97 to 98.

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36 POST-RETIREMENT OBLIGATIONS

36.1 DENEL MEDICAL BENEFIT TRUST (CONTINUED)

	2017/18 Rm	2016/17 Rm	2015/16 Rm
Change in defined benefit funded obligation			
Present value of funded obligations at 1 April	409	503	481
Service cost benefits earned during the year	1	1	1
Interest cost on projected benefit obligation	35	46	46
Actuarial losses	(34)	(24)	-
Remeasurement	-	(26)	-
Benefits paid	(23)	(91)	(28)
Present value of funded obligations at 31 March	388	409	500
Change in plan assets			
Fair value of plan assets at 1 April	1 326	1 360	1 288
Expected return on plan assets	121	128	125
Remeasurement	(30)	(40)	(25)
Benefits paid	(23)	(26)	(28)
Member voluntary payout exits from scheme	-	(96)	-
Fair value of plan assets at 31 March	1 394	1 326	1 360
Fund excess	1 005	917	965
Excess not recognised	(1 003)	(914)	(965)
Unrecognised actuarial gains	2	3	-
Net benefit expenses			
Service cost	1	1	1
Interest cost	35	46	46
Expected return on plan assets	121	128	125
Net actuarial loss recognised during the year	(105)	(24)	-
Income	52	151	172

	%	%	%
The principal actuarial assumptions used for accounting purposes were:			
Expected return on plan assets	9.6	8.9	9.5
Expected medical inflation	7.6	7.7	8.7

	Number	Number	Number
The beneficiary members from the funds are as follows:			
Active members	54	63	72
Retired members	637	658	839

36 POST-RETIREMENT OBLIGATIONS

36.1 DENEL MEDICAL BENEFIT TRUST (CONTINUED)

	2018/19		2017/18		2016/17	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	%	%	%	%	%	%
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	10	8	11	9	11	9

	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Amounts for the current and previous seven years are as follows:							
Defined benefit obligation	(388)	(409)	(503)	(481)	(611)	(755)	(674)
Plan assets	1 394	1 326	1 360	1 288	1 328	1 057	1 151
Surplus	1 005	917	857	807	717	302	477
Experience adjustments on plan liabilities	(3)	-	15	(5)	(35)	(25)	(4)

	Health care cost inflation	Change in past service contractual liability	Change in funding level	Change in service cost plus interest cost
	%	%	%	%
Discount rate				
Variation				
+1%	10.62	(8.3)	+32.6	+0.7
1%	8.62	9.8	(32.1)	(1.1)
Retirement Age				
Variation				
65		(2.8)	+10.4	(0.6)
55		+1.2	(4.2)	+0.5

36.2 DENEL RETIREMENT FUND

The group has established a retirement fund scheme that covers all qualifying employees. This fund is a defined contribution plan and is governed by the Pension Funds Act of 1956 (Act No. 24 of 1956). The contributions are charged to the income statement as incurred.

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	2018/19				2017/18				2016/17			
	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
	Rm	Rm	Rm	%	Rm	Rm	Rm	%	Rm	Rm	Rm	%
37 SUBSIDIARIES AND ASSOCIATED COMPANIES [1]												
The following unlisted companies are subsidiaries of Denel SOC Ltd and its subsidiaries:												
Denel Aerostructures SOC Ltd	1 689	1 689	354	100	1 689	1 689	251	100	1 689	1 689	251	100
Densecure SOC Ltd	8	8	(24)	100	8	8	(22)	100	8	8	-	100
LMT Holdings SOC Ltd (RF) [2]	27	16	318	51	27	16	314	51	27	16	265	51
Denel Vehicle Systems (Pty) Ltd	25	828	(247)	100	25	828	(342)	100	25	828	(265)	100
Turbomeca Africa (Pty) Ltd [3]	-	94	-	100	-	94	-	100	-	-	-	-
Aggregated amounts less than R0.5m [1 and 4]	-	-	-	100	-	-	-	100	-	-	-	100
Total investment	-	2 635	401	-	-	2 635	201	-	-	2 541	251	-
Less: Accumulated impairment	-	(1 810)	(654)	-	-	(1 055)	(650)	-	-	(1 055)	(336)	-
Net investment of Denel SOC Ltd	-	825	(253)	-	-	1 580	(449)	-	-	1 486	(85)	-

1. *Amounts smaller than R0.5m due to rounding are not reflected against the entities but in aggregate on this page.*
2. *This includes R16m (2017/18: R16m, 2016/17: R16m) preference shares.*
3. *Refer note 8.*
4. *The investment made in Denel Asia LLC, was less than R0.5m (refer note 8.3). Denel Asia LLC is the only subsidiary in which Denel SOC Ltd's investment is less than R0.5m.Refer notes 12 and 14.*

	2018/19				2017/18				2016/17			
	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
	Rm	Rm	Rm	%	Rm	Rm	Rm	%	Rm	Rm	Rm	%
37 SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED) [1]												
Subsidiary shareholding by LMT Holdings SOC Ltd (RF), a subsidiary of Denel SOC Ltd [5]												
LMT Products SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
LMT Engineering SOC Ltd	-	-	7	51	-	7	-	51	-	7	-	51
LMT Properties SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
Net investment of LMT Holdings SOC Ltd (RF)	-	7	-	-	-	7	-	-	-	7	-	-
The following unlisted companies are associated companies of Denel SOC Ltd and its subsidiaries:												
Turbomeca Africa (Pty) Ltd	-	-	-	-	-	-	-	-	100	49	-	49
Hensoldt Optronics (Pty) Ltd [6 and 7]	-	-	-	-	190	57	-	30	190	57	-	30
Rheinmetal Denel Munition (Pty) Ltd	-	-	-	-	757	371	-	49	757	371	-	49
Tawazun Dynamics LLC	-	-	-	-	47	23	-	49	47	23	-	49
Net investment of Denel SOC Ltd [8]	-	451	-	-		500	-	-	-	500	-	-
Associated company shareholding by Denel Vehicle Systems (Pty) Ltd, a subsidiary of Denel SOC Ltd												
Pioneer Land Systems LLC [8]	-	-	-	49	-	-	-	49	-	-	-	49
Net investment of Denel Vehicle Systems (Pty) Ltd	-	-	-	49	-	-	-	49	-	-	-	49

5. *Shares are not held by the group but effective management control is exercised in these entities.*
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) Lt.*
7. *Refer note 13.*
8. *Equity partnership was established between International Golden Group PJSC and Denel Vehicle Systems (Pty) Ltd. The agreement was entered into on 5 February 2014. Apart from the issuing of 100 non dividible non negotiable shares at UAE$3 000 per share in 2014, no other transactions to date took place . International Golden Group PJSC holds 51% in Pioneer Land Systems LLC whilst Denel Vehicle Systems (Pty) Ltd holds 49% of the shares issued.*

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	2018/19	2017/18	2016/17
	Rm	Rm	Rm

37 SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED) [1]

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

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm
38 FRUITLESS AND WASTEFUL EXPENDITURE						
Opening balance	-		-	-	-	-
Prior period error						
As restated	-		-	-	-	-
Fruitless and wasteful expenditure – relating to prior year	3	-	-	3	-	-
Fruitless and wasteful 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	136	-	-	132	-	-
Analysis of current year's fruitless and wasteful expenditure						
Incident						
Interest and penalties charged on overdue accounts	57	-	-	53	-	-
Penalties on late deliveries	79	-	-	79	-	-
Regulatory and Statutory Compliance	-	-	-	-	-	-
Other*	-	-	-	-	-	-
Fruitless and wasteful expenditure awaiting resolution	136	-	-	132	-	-

* Other refers to items other than interest or penalties,such as storage costs, late payment fees.

	GROUP			COMPANY		
	2018/19	2017/18	2016/17	2018/19	2017/18	2016/17
	Rm	Rm	Rm	Rm	Rm	Rm
39 IRREGULAR EXPENDITURE						
Opening balance at 1 April	1 901	1 497	1 000	926	752	332
Add: Irregular expenditure incurred in the prior year						
Deviations from the procurement process not adequately approved	-	-	-	-	-	-
Tax clearance certificates not obtained	-	-	-	-	-	-
Add: Irregular expenditure incurred in current year	217	406	563	119	173	467
Suppliers not registered on the central supplier database	-	-	-	-	-	-
Bids not adequately approved	22	3	61	-	3	61
Contract extension not adequately approved	17	44	5	17	33	-
Deviations from the procurement process not adequately approved	38	60	55	-	11	-
Evaluation criteria not adequately specified or applied	3	55	213	3	28	213
Inadequate deviation process followed	-	15	-	-	15	-
Insufficient quotes acquired	1	2	7	1	2	6
Limitation of Scope Information not available	-	5	32	-	5	32
Local content and designated products not catered for	19	-	-	19	-	-
No Competitive bid process	52	18	8	22	2	-
Procurement done without following a prescribed/ compliant Legislation	46	95	2	41	9	2
Procurement done without following a prescribed/ compliant process	6	11	4	6	6	4
Quotations process not initiated from the National Treasury Central Supplier Database	3	2	10	3	1	2
R500k or R1m open tender threshold not adhered to	4	28	61	2	18	51
SBD 4 – Declaration of interests needs to be confirmed for transactions above R1m per financial year	3	1	-	2	-	-
Single source/sole – approval process not followed	3	34	65	3	32	65
Tax Clearance Certificates on Foreign as well as local suppliers	-	33	40	-	8	31
Less: Amounts condoned	2 118	1 903	1 563	1 045	925	799
Add: Irregular expenditure identified by the external auditors	-	-	-	-	-	-
Less: Amounts recoverable (not condoned)	-	-	-	-	-	-
Less: Amounts not recoverable (not condoned)	-	-	-	-	-	-
Irregular expenditure awaiting condonation	2 118	1 903	1 563	1 045	925	799

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39 IRREGULAR, FRUITLESS AND WASTEFUL 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 its significance and materiality framework agreed with the shareholder.

It is important to the contravention of any law and regulation 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.

Irregular expenditure

Upon review of the findings received on the 2017/18 audited financial statements, Denel embarked on a process to review its expenditure for the previous years in order to detect irregular expenditure, which had not been disclosed. This exercise has established that over the last three years Denel has incurred an accumulated irregular expenditure of R2, 118b including R216.73m incurred during 2018/19 as tabulated below. The numbers reflected have been restated for the prior periods in order to provide the user of the financial statements information that is comparable for the financial years presented.

Consequence management

In some instances, management has taken disciplinary action against employees involved in transactions leading to fruitless, wasteful irregular expenditure. Denel is also pursuing litigation through criminal and civil action where appropriate and continuing investigations on other cases. As at year end two (2) criminal cases are under investigation.

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 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.

40 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED

This note explains the impact of the prior period errors on the Group's Financial Statements.

Revenue recognition

Following the previous' year disclaimer audit, management have reviewed all contracts to ensure application to the correct standard (IAS 11 and IAS 18). In some instances the incorrect standard was applied in recognising revenue whilst in other cases the correct standard was applied with errors in the calculations. This resulted in a material error in revenue and related disclosure. The errors have been corrected retrospectively by restating the comparative amounts presented in these financial statements.

Provision for remediation

The provision for remediation recognized, pertaining to the PMP sites, was not included in the cost of the asset as required by IFRS 16. Furthermore, the changes in the provision for remediation, pertaining to the PMP sites, that resulted from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, should have been added to or deducted from the cost of the related asset and depreciated prospectively over its useful life and were not measured and recorded accordingly, as required by IFRIC 1. The impact of depreciation and / or impairment on the amounts to be capitalised as per above were not measured and recorded accordingly, as required by IFRIC 1.

Revaluation reserve

In 2018, management erroneously recognised the fair value adjustments for investment property were recognised in the revaluation reserve instead of Other Income in Statement of comprehensive income. Furthermore IAS 40 provides that upon the sale of an investment property, an entity may recycle fair value revaluations previously recognised in the revaluation reserve to retained earnings. In 2016, Denel sold an investment property whose revaluations had been recognised in the revaluation reserve and management took the decision to recycle the reserves relating to this property to retained earnings.

Denel Medical Benefit Trust

The group 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). Since its inception, the trust has been in surplus and Denel has not made any other contributions other than the initial contributions. However IFRIC 14 further clarifies the economic benefit available as a reduction in future contributions. IFRIC 14 paragraph 16 states if there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of the surplus in the plan and the present value of the future service cost to the entity, ie excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity. Management recalculated the surplus to be consolidated in the Denel Group.

Operating leases

Management reviewed the recognition of its leases for rented property and restated some of rental expense recognised in the income statement.

The following tables reflect the adjustment recognised for each individual line item. The line items that are not affected by the changes have not been included.

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40 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

	As reported	Revaluation reserve impact	Provision for remediation	DMBT trust	Operating leases	Revenue Recognition	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP							
2018/19							
Statement of profit and loss	5 004	-	-	-	-	844	5 848
Revenue	(5 125)	-	-	-	(6)	(279)	(5 410)
Cost of sales	142	13	-	(1)	-	139	293
Other income	(1 726)	-	2	-	-	4	(1 717)
Operating expenditure	(394)	-	18	-	-	-	(376)
Finance costs	66	-	-	-	-	4	70
Finance income	226	-	-	-	-	-	226
Share of profit in associated companies	(18)	-	-	-	-	9	(8)
Taxation expense				-	-	-	
Increase/ (Decrease) in net profits	(1 825)	13	20	(1)	(6)	721	(1 074)
Statement of financial position							
Property, plant and equipment	1 073	-	-	-	-	-	1 079
Deferred tax asset	20	-	-	-	-	14	22
Inventory	2 830	-	-	-	-	(286)	3 183
Trade and other receivables	1 592	-	-	-	-	82	1 354
Contract assets	1 720	-	-	-	-	259	1 727
Current prepayments made	360	-	-	(1)	-	(32)	371
Income tax receivables	15	-	-	-	-	-	8
Non distributable reserves	56	-	-	-	-	13	30
Non current provisions	384	13	(20)	-	-	9	337
Trade and other payables	2 302	-	-	-	(6)	75	2 481
Contract liabilities	298	-	-	-	-	86	358
Prepayments received	1 487	-	-	-	-	450	2 047
Current provisions	296	-	-	-	-	52	234
Income tax payables	5	-	-	-	-	-	4
Increase/ (Decrease) in retained earnings	12 438	13	(20)	(1)	(6)	722	13 235

40 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

	As reported Rm	Revaluation reserve impact Rm	Provision for remediation Rm	DMBT trust Rm	Operating leases Rm	Revenue Recognition Rm	Total Rm
GROUP							
2017/18							
Statement of profit and loss	8 057	-	-	-	1	(275)	7 769
Revenue	(6 236)	-	(1)	-	-	(313)	(6 550)
Cost of sales	135	-	-	3	-	211	350
Other income	(1 555)	-	2	-	-	(2)	(1 552)
Operating expenditure	(352)	-	(35)	-	-	-	(368)
Finance costs	80	-	-	-	-	-	80
Finance income	155	-	-	-	-	(48)	154
Share of profit in associated companies	(23)	-	-	-	-	-	(72)
Taxation expense				-	-	-	
Increase/ (Decrease) in net profits	**261**	**-**	**(34)**	**3**	**1**	**(427)**	**(189)**
Statement of financial position							
Property, plant and equipment	1 134	-	(1)	-	-	-	1 142
Deferred tax asset	36	-	-	-	-	(13)	24
Inventory	2 623	-	-	-	-	(164)	3 263
Trade and other receivables	2 388	-	-	-	1	39	1 820
Contract assets	1 475	-	-	-	-	50	1 462
Current prepayments made	455	-	-	-	-	16	495
Income tax receivables	6	-	-	3	-	(7)	1
Non distributable reserves	43	-	-	-	-	72	25
Non current provisions	385	-	-	-	-	(2)	327
Trade and other payables	1 542	-	(34)	-	-	-	1 895
Contract liabilities	328	-	-	-	-	(199)	444
Prepayments received	1 562	-	-	-	-	(217)	2 572
Current provisions	421	-	-	-	-	(2)	402
Income tax payables	1	-	-	-	-	-	1
Increase/ (Decrease) in retained earnings	**12 399**	**-**	**(35)**	**3**	**1**	**(427)**	**13 873**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

41 CHANGE IN ESTIMATES

Asset Class: Vehicles

Management noted that inconsistencies existed in various entities relating to the method used to determine the residual value of vehicles. Management went through an exercise and considered that 20% of original cost is the best estimate of residual value for all vehicles taking into account of decrease in prices and actual data on proceeds on sales available. At 31 March 2019, the group re assessed the useful lives of Vehicles at 7 years (previously 5 years) from the date of acquisition.

The financial effect of the above changes to the depreciation expense of the current year ended 31 March 2019, as well as the expected depreciation for each of the remaining years.

	Current period 31 March 2019 Rm	Future periods 31 March 2020 onwards Rm
GROUP		
Current depreciation expense	(3)	(3)
Previous depreciation expense	(5)	(5)
(Increase)/Decrease in depreciation expense	**(2)**	**(2)**
COMPANY		
Current depreciation expense	(3)	(3)
Previous depreciation expense	(5)	(5)
(Increase)/Decrease in depreciation expense	**(2)**	**(2)**

Asset Class: Computer Equipment

41 CHANGE IN ESTIMATES (CONTINUED)

Asset Class: Computer Equipment

Management noted that inconsistencies existed in various entities relating to the method of disposal of computer equipment leading to inconsistent application of the requirements of IAS relating to the residual value assessment of computer equipment. In order to determine an appropriate useful life to be assigned to the computer equipment, management assessed the actual age of all computer equipment at the entities and noted that the average age of computer equipment across the group amounted to 9 years. Management deemed this as evidence that the useful lives set at 3 5 years might be inconsistent with the actual facts in the group. At 31 March 2019, the group re assessed the useful lives of computer equipment to between 5 years and 7 years (previously 3 years and 5 years) from the date of acquisition.

The financial effect of the above changes to the depreciation expense of the current year ended 31 March 2019, as well as the expected depreciation for each of the remaining years.

	Current period 31 March 2019 Rm	Future periods 31 March 2020 onwards Rm
GROUP		
Current depreciation expense	(8)	(8)
Previous depreciation expense	(13)	(13)
(Increase)/Decrease in depreciation expense	**(5)**	**(5)**
COMPANY		
Current depreciation expense	(6)	(6)
Previous depreciation expense	(11)	(11)
(Increase)/Decrease in depreciation expense	**(5)**	**(5)**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

41 CHANGE IN ESTIMATES (CONTINUED)

Asset Class: Plant and machinery

Management made an assessment of residual values and useful lives of plant, machinery and equipment using teams of internal experts identified to Denel as having extensive specific experience in the management and production life cycles of plant, machinery and equipment . In order to determine an approximate useful lives and residual values the assessment was done at entity level and the results herein are average ranges. At 31 March 2019, the group re assessed the useful lives of plant, machinery and equipment to between 2 years and 20 years (previously 2 years and 40 years) from the date of acquisition. The residual values assessments were also done and deemed as ranging between 2% and 25% of original cost (previously 0% and 80%). The significant change came about as a result of revising the remaining useful lives of machinery and equipment at Denel Aerostructures to 2 years (from previous useful lives of between 5 and 40 years) and residual values to 18% (previously 80%) due to the planned exit of that business.

The financial effect of the above changes to the depreciation expense of the current year ended 31 March 2019, as well as the expected depreciation for each of the remaining years is as follows:

	Current period 31 March 2019 Rm	Future periods 31 March 2020 onwards Rm
GROUP		
Current depreciation expense	(96)	(96)
Previous depreciation expense	(63)	(62)
(Increase)/Decrease in depreciation expense	33	3
COMPANY		
Current depreciation expense	(96)	(96)
Previous depreciation expense	(63)	(63)
(Increase)/Decrease in depreciation expense	33	33

41 CHANGE IN ESTIMATES (CONTINUED)

Asset Class: Buildings

In the current year management made use of independent property valuators to assess the useful lives and the residual values of the buildings. According to the assessment carried out by the independent property valuators, the useful lives of the Denel buildings were assessed to be between 25 and 32 years (previously 20 and 25 years) from the acquisition date. The residual values of the buildings were assessed as higher than carrying amounts (previously at R0) and consequently depreciation is charged at zero for the 2018/19 financial year. This change in residual value of the buildings is therefore a change in accounting estimate and is treated as such in the current financial year and results to the future depreciation charge of buildings at zero until such time that the residual values of building subsequently decreases to an amount below the building's carrying values.

The financial effect of the above changes to the depreciation expense of the current year ended 31 March 2019, as well as the expected depreciation for each of the remaining years is as follows:

	Current period 31 March 2019 Rm	Future periods 31 March 2020 onwards Rm
GROUP		
Current depreciation expense	(2)	(2)
Previous depreciation expense	(18)	(22)
(Increase)/Decrease in depreciation expense	**(16)**	**(20)**
COMPANY		
Current depreciation expense	(2)	(2)
Previous depreciation expense	(18)	(18)
(Increase)/Decrease in depreciation expense	**(16)**	**(16)**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

42 CHANGE IN ACCOUNTING POLICIES

The group has adopted the following new International Financial Reporting Standards as issued by the IASB, which were effective for the group from 1 April 2018:

- IFRS 9: Financial Instruments ("IFRS 9"); and
- IRS 15: Revenue from Contracts with Customers ("IFRS 15").

Adoption of IFRS 9

IFRS 9 replaces the provisions of IAS 39 and was adopted by the group without restating comparative information in accordance with the transitional provisions included in the standard. The adoption of IFRS 9 had the following impact on the group:

- Change in classification of the measurement categories for financial instruments; and
- Change from the IAS 39 incurred loss model to the expected credit loss ("ECL") model to calculate impairments of financial instruments

Details of the impact are provided below:

Classification, initial recognition and subsequent measurement

IFRS 9 introduces new measurement categories for financial assets. The measurement categories of IFRS 9 and IAS 39 are illustrated in the table below:

IAS 39	IFRS 9
Loans and receivables Financial assets at amortised cost	Financial assets at amortised cost
Trade and other receivables at amortised cost	Trade and other receivables at amortised cost
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
Cash and cash equivalents at fair value	Cash and cash equivalents at amortised cost
Financial liabilities at amortised cost	Financial liabilities at amortised cost
Financial liabilities at fair value through profit or loss	Financial liabilities at fair value through profit or loss

Effective 1 April 2018, the group classifies its financial assets in each of the IFRS 9 measurement categories according to the group's business model for managing the financial asset together with the cash flow characteristics of the financial asset. The reclassification into the new measurement categories of IFRS 9 did not have a significant impact on the group.

There was no change to the measurement of financial liabilities, which are measured at either amortised cost or fair value through profit and loss. Furthermore the adoption of IFRS 9 did not require the reclassification of any financial liabilities.

42 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Impairment

Prior to the adoption of IFRS 9 the group's methodology for calculating the allowance for credit losses was based on an incurred loss model in terms of IAS 39, where at the end of each reporting period the group assessed whether any objective evidence of impairment existed. Had any evidence existed at the time of consideration, an allowance for credit losses was calculated on the financial asset at amortised cost as the difference between the financial asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate (its recoverable amount).

Under IFRS 9, the group revised its methodology for calculating the allowance for credit losses on its financial assets to an expected credit loss model. The group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables, including receivables under operating leases; and
- Contract assets relating to contracts in progress and retentions.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; however, the identified loss allowance is deemed to be immaterial.

The group applies IFRS 9's simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This approach resulted in the following loss allowance increases on 1 April 2019.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

42 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

IFRS 15

IFRS 15 established a comprehensive framework for determining and reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It replaces all existing revenue standards and their related interpretations in IFRS and applies to all contracts with customers except for contracts that are within the scope of other standards on leases, insurance contracts and financial instruments and therefore does not impact the majority of the company's revenue.

The standard outlines the principles that must be applied to measure and recognise revenue with the core principle being that revenue should be recognised at an amount that reflects the consideration to which an entity expects to be an entitled in exchange for fulfilling its performance obligations to a customer. The principles in IFRS 15 must be applied using the following 5 step model:

(i) Identify the contract(s) with a customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations in the contract; and

(v) Recognise revenue when or as the entity satisfies its performance obligations.

In accordance with the transition paragraphs of IFRS 15 C3(b), the group decided to recognise the cumulative effect of initially applying IFRS 15 as an adjustment to opening retained earnings under the modified retrospective restatement method, where applicable. Denel adopted the expedients in accordance with paragraphs C7 and C8 where the standard allows its application only to contracts that were not completed as at 1 April 2018.

42 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Impact on the financial results due to the adoption of IFRS 15:

	As reported 2019 R'000	Adjustments R'000	Without adoption of IFRS 15 R'000
GROUP			
Impact on profit or loss for the year ended 31 March 2019			
Increase/(decrease) in revenue	17	(82)	(65)
(Increase)/decrease in cost of sales	(361)	75	(286)
Sales and distribution/commission	(257)	(20)	(277)
(Increase)/decrease in income tax for the year	-	-	-
Increase/(decrease) in profit for the year	58	-	58
Increase/(decrease) in total comprehensive income for the year	**(543)**	**(27)**	**(570)**
Impact on profit or loss for the year ended 31 March 2019			
Contract assets	552	533	1 085
Contract costs	(151)	52	(99)
Amounts due from customers under construction contracts	7	18	25
Amounts due to customers under construction contracts	117	-	117
Right to returned goods assets (inventory)	(517)	210	(307)
Contract liabilities (non current)	(453)	(22)	(475)
Contract liabilities (current)	(964)	(3)	(967)
Refund liability	1 062	16	1 078
Retained earnings	29	782	811
	(318)	**1 586**	**1 268**
Impact on cash flows as at 31 March 2019			
Cash flows from operating activities	36	-	36
Cash flows from investing activities	-	-	-
Cash flows from financing activities	(35)	-	(35)
	1	**-**	**1**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

42 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Impact on the financial results due to the adoption of IFRS 15:

	As reported 2019 R'000	Adjustments R'000	Without adoption of IFRS 15 R'000
COMPANY			
Impact on profit or loss for the year ended 31 March 2019			
Increase/(decrease) in revenue	(103)	(69)	(172)
(Increase)/decrease in cost of sales	(294)	72	(222)
Sales and distribution/commission	(257)	(19)	(276)
(Increase)/decrease in income tax for the year	-	-	-
Increase/(decrease) in profit for the year	-	-	-
Increase/(decrease) in total comprehensive income for the year	**(654)**	**(16)**	**(670)**
Impact on profit or loss for the year ended 31 March 2019			
Contract assets	279	11	290
Contract costs	(151)	52	(99)
Amounts due from customers under construction contracts	(48)	8	(40)
Amounts due to customers under construction contracts	91	-	91
Right to returned goods asset (inventory)	-	-	-
Contract liabilities (non current)	(454)	(22)	(476)
Contract liabilities (current)	(964)	(3)	(967)
Refund liability	1 062	16	1 078
Retained earnings	(113)	61	(52)
	(298)	**123**	**(175)**
Impact on cash flows as at 31 March 2019			
Cash flows from operating activities	36	-	36
Cash flows from investing activities	-	-	-
Cash flows from financing activities	(35)	-	(35)
	1	**-**	**1**

The group's opening retained earnings as at 1 April 2018 are as follows:

Closing retained earnings balance 31 March 2018	
Increase / (Decrease) in revenue	-
Increase / (Decrease) in cost of sales	-
Increase / (Decrease)in deferred tax due to revenue recognition	-
Opening retained earnings balance 1 April 2018 (restated)	-

43 GOING CONCERN

The board made an assessment of the group's ability to continue as a going concern in the foreseeable future. The board:

- Reviewed the performance of the group for the year ended 31 March 2019 with a Net loss of R1,7bn, (Net loss 2017/18: R1.0bn) and projected losses in 2019/20;
- Noted that Denel has been unable to pay is overdue core creditors which may have a material risk on their ability to continue supply which in turn impacts future project requirements. Management has considered this and has put in place mitigating steps to minimise the risk to the business and the board will continue to monitor the payment of overdue creditors and the impact thereof;
- Considered the commercial viability of the business including the major contracts included in the order book (R18bn) and pipeline (R30bn) and Denel's ability to execute on the orders;
- Noted the maintained rating downgrade by Fitch to investment grade with a negative outlook. The board considered the impact this may have in accessing future funding;
- Noted that Denel was able to raise R1.4bn in the investor market in September 2019;
- Noted the continued support of its Shareholder as a going concern and received R1.8bn recapitalisation albeit it was R1bn short of the R2.8bn request. The board is encouraged by the Shareholders' assertion that it will still consider the R1.0bn additional request remaining in the medium term budget process. The outcome of this process will be communicated during October / November 2019. Denel anticipates that the balance of the recapitalisation will be received within the first quarter of 2020/21 financial year;
- Noted the investor sentiments towards through the bridging finance received during the year;
- Reviewed the cash flow forecast for the period of twelve months with adequate cash in the foreseeable future;
- Considered the mitigating steps taken by management through the implementation of the turnaround strategy 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;
- Considered that there remains positive sentiment towards Denel and continued, expressed interest in Denel products, capabilities and IP; and
- Considered the existing strategic relationship between the DoD and Denel. This has been demonstrated by the continued base load work received on critical capabilities.

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 30 September 2019. The group annual financial statements were therefore prepared on this basis.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

44 Events after the reporting period

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.

Denel Aerostructures SOC Ltd

In February 2019, Airbus and Denel agreed to a mutual termination of the A400M contracts subject to Denel procuring requisite approvals from the South African Government to exit Denel Aerostructures SOC Ltd. Subsequently, Denel and Airbus concluded a Memorandum of Understanding (MOU) in April 2019 agreeing the principles to transfer A400M work packages from DAe to Airbus preferred suppliers in Europe subject to requisite approvals and compliance with the Public Finance Management Act (PFMA). Despite Denel being liable for the transfer costs as per existing contracts, it was agreed that Denel's capped liability for the cost of the transfer will be €12m (R196m) against a total transfer cost of €20m.

Denel's ongoing liquidity crisis has also affected both the GKN and Honda work packages such that the severity of the delays could no longer be accommodated and de risked. Both customers have formally notified DAe of their intention to terminate their contractual agreements with DAe due to default by DAe and transfer their work packages to alternative suppliers. As reported above, both customers have subsequently terminated the contracts and finalizing their damages claims against DAe. It is worth mentioning that as per the contract, the total contract liability for GKN are capped at $10m (USD) and for Honda at $5m (USD). This will result in further erosion of the revenue base and with the related reputational damage of poor delivery performance, DAe will not be able to grow the revenue base in the short to medium term to sustainable levels. With the revenue base eroded, DAe will incur losses of circa R226m per year (current base cost) over the next five years.

For Denel the cost of the transfer of the A400M work packages, which is a Denel responsibility, has been negotiated to be limited to €12m (circa R 196m) against a total transfer cost of €20m. It was further agreed by the parties that it is not Airbus' intention to call on the Parent Company Guarantee of €101m and letter of comfort capped at €2m for the A400M work package contracts during the transfer period unless DAe defaults on its obligation of the transfer.

With the exit and winding up of Denel Aerostructure SOC Ltd and related manufacturing capabilities, Denel will be liable for costs in the form of restructuring in accordance with the Labour Relations Act (LRA) Section 189; supporting the handover of design authority to Airbus, facility rehabilitation as per the lease agreement for the facilities, and asset impairment amounting to circa R 262m. GKN and Honda may invoke additional contract liabilities for transfer to the value of $15m (R217m) in lieu of early termination of the contracts. This will however be re negotiated with both GKN and Honda to limit Denel's exposure similar to the negotiated Airbus position.

Public Finance Management Act (PFMA) Section 54 application

Following negotiations between Denel SOC Ltd, Denel Aerostructures SOC Ltd (collectively Denel) and Airbus Defence and Space and Airbus Operations GmbH (collectively Airbus) to transfer A400M work packages from Denel to Airbus preferred suppliers in Europe, a Memorandum of Understanding (MoU) was concluded during April 2019. Denel subsequently submitted a Section 54 application for approval as per the Public Finance Management Act (PFMA) to exit and wind up Denel Aerostructures SOC Ltd. The effective date of the MoU as agreed by the parties is the date of approval of the PFMA Section 54 application by both the Ministers of Public Enterprises and Finance. The MoU also spells out the corresponding rights and obligations of the parties (Airbus and Denel) during the transition period. The transition period is described as the period between the effective date of the MoU and signature of the Termination Agreements for each work package.

The Minister of Finance approved the application to exit Denel Aerostructures SOC Ltd on 11 July 2019 with conditions. One of the conditions of the Minister of Finance's approval is that Denel needs concurrent approval of the Section 54 PFMA application also from the Minister of Public Enterprises. On 09 September 2019, Denel received the approval of the Minister of Department of Public Enterprises.

44 Events after the reporting period (CONTINUED)

Denel Aerostructures SOC Ltd (continued)

Denel Aeronautics Fire incident

On the morning of 28 August 2019 a fire broke out in the cleaning, surface treatment and paint plants in the Aero Engine Work Shop (A03) of Denel Aeronautics. The fire caused significant damage to these areas. There were no fatalities or injuries. The financial impact of the incident is currently under investigation.

Denel SOC Funding

During April 2019, Denel received an additional R1bn government guarantee from the shareholder, furthermore, on 30 August 2019, Denel received correspondence from the Minister of Finance wherein he approved the funding of Denel to an amount of R1.8bn against an application of R2.8bn. This application was approved subject to several conditions including but not limited to the successful execution of the turnaround strategy. The funding was received by Denel on 31 August 2019.
LMT Products (Pty) Ltd

On 02 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 04 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, Denel no longer has control of this entity.

Sale of equity shareholding of Hensoldt Optronics

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. A pre notification in terms of the PFMA was submitted to the Department of Public Enterprises on 26 March 2019, however as at a year end a PFMA approval submission had not yet been submitted at year end. Furthermore on 27 August 2019, the board of Denel approved the sale of Hensoldt with an indicative price and subject to the PMFA submission and approval of the sale.

Sale of RG21 Vehicles

At year end management raised a fully provision of R16m on the RG12 Dubai WIP project as a result of continues projects delays and on the back of communication received from the client indicating that the contract will be cancelled if the vehicle was not delivered by the 27th May 2019. It was management views at year end that the delivery date will not be met as a result of lack of support from suppliers due the Denel liquidity challenges. The client has subsequent agreed to have the vehicle delivered to the AUE for testing, and is currently being shipped.

Investigations

The board has concluded several forensic investigations dealing with areas of misconduct and maleficence within Denel. The board is reviewing the reports received and in some instances has acted according to recommendations to pursue civil and criminal action against the individuals involved.

INFORMATION SERVICE

INFORMATION SERVICE
PART 8

GRI CONTENT INDEX

We have provided some GRI disclosures in the 2018/19 integrated report. The disclosures provided are set out in the table below, with a reference to where in the document the information may be found.

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	54
G4-2	Description of key impacts, risks, and opportunities, including rights as defined by national laws and relevant internationally recognised standards	Material Risks	43
ORGANISATIONAL PROFILE			
G4-3	Report the name of the organisation	About this report	Inside cover
G4-4	Report the primary brands, products, and services.	Who we are	08
G4-5	Report the location of the organisation's headquarters	Corporate contact details	230
G4-6	Report the number of countries where the organisation operates, and 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	20
G4-7	Report the nature of ownership and legal form	Organisational Structure	20
G4-9	Report the scale of the organisation (including total number of employees, operations, net sales)	Human Capital, Organisational Structure and Financial performance.	06 20 102
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	26 224
G4-11	Report the percentage of total employees covered by collective bargaining agreements	Human Capital	26
G4-12	Describe the organisation's supply chain	Social Capital	40
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	60
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 37 of the consolidated annual financial statements	21 201
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	43
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation	Material Risks	40 to 42
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	Consolidated financial statements	207
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	Not applicable	

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
STAKEHOLDER ENGAGEMENTS			
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholder engagements	36 to 39
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	Stakeholder engagements	36 to 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	36 to 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	36 to 39
REPORT PROFILE			
G4-28	Reporting period for information provided	About this report	Inside cover
G4-29	Date of most recent previous report.	31 March 2018	
G4-30	Reporting cycle	We report annually	
G4-31	Provide the contact point for questions regarding the report or its contents.	Corporate contacts details	228
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	Inside cover 84 to 85
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	70-86
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	70-86
G4-36	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	Governance framework	70-86
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	70-86

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
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	68 to 77
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	68 to 77
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	68 to 77
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 33 Related Parties	68 to 77 161 to 166
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	68 to 77
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	68 to 77
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	68 to 77
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	68 to 77
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	68 to 77
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Material risks	40 to 42
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	41 to 44
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	40 to 42
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	78 to 80
G4-52	Report the process for determining remuneration.	Remuneration report	78 to 80

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
	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	68 to 77
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines	Our vision, strategic drivers and values, Governance framework	06 47 76
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	06 47 76

ENVIRONMENTAL STATISTICS

The table below breaks down Denel's identified and quantified carbon sources at the various campuses and entities:

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)
	kWh	kg	kg	litres	litres	litres	litres	litres
Kempton Park	23768748	156576		237011	148677	5835	12650	
PMP	15138488	54612	652510			3462	16486	
Irene	19558391				200	17230	11610	
Lyttelton	6706741					21838	29251	
DVS	5781610	14				21003	14785	
OTR	5247852					47975	110711	
LMT	0						0	
Houwteq	1957538					8000	2000	
Total	**78159368**	**211202**	**652510**	**237011**	**148877**	**125342**	**197494**	**0**

TONNES CO2 EQUIVALENT EMISSIONS

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
Kempton Park	22580	459.9		753	377	13	34	
PMP	14382	160.4	1600			8	44	
Irene	18580				1	40	31	
Lyttelton	6371					50	79	
DVS	5493	0.04				48	40	
OTR	4985					111	298	
LMT	0					0	0	
Houwteq	1860					18	5	
Total	**74251**	**620**	**1600**	**753**	**378**	**289**	**531**	**0**

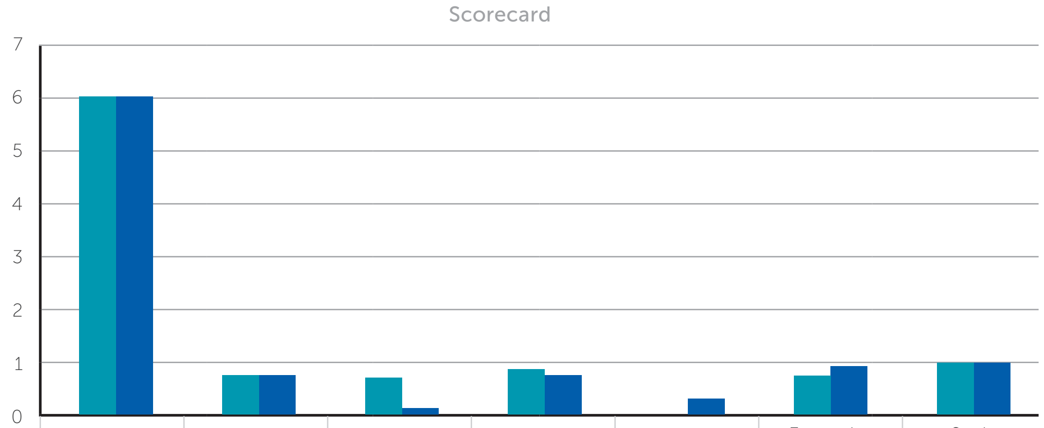
	FUEL TYPE	QUANTITY	TONNES CO2E
Scope 1 (Based on DEFRA 2018 CO2e Factors)	Liquid Petroleum Gas (kG)	211202	620
	Coal (kg)	652510	1600
	Heavy Fuel Oil (litres)	237011	753
	Aviation Turbine Fuel (litres)	148877	378
	Petrol (litres)	125342	289
	Diesel (litres)	197494	531
	Paraffin (litres)	0	0
	Total Scope 1 CO2e (Tonnes)		**4171**
Scope 2 (C02e Factor: Eskom)	Electricity (kWh)	78159368	74251
	Total Scope 2 CO2e		**74251**

HUMAN CAPITAL STATISTICS

WORKFORCE PROFILE

WORKFORCE	2018/19		2017/18		2016/17	
	Black	White	Black	White	Black	White
Executive management	13	7	7	4	8	4
Senior management	37	21	23	23	25	25
Management	111	192	117	206	119	195
Professional Staff	1414	1001	1796	1211	1928	1318
Administrative Staff	263	158	270	170	266	169
Support Staff	193	84	204	95	195	110
Trainees	154	6	154	6	204	13
General workers	273	41	292	51	307	55
	2458	**1510**	**2863**	**1766**	**3052**	**1889**
Total	**3968**		**4629**		**4941**	

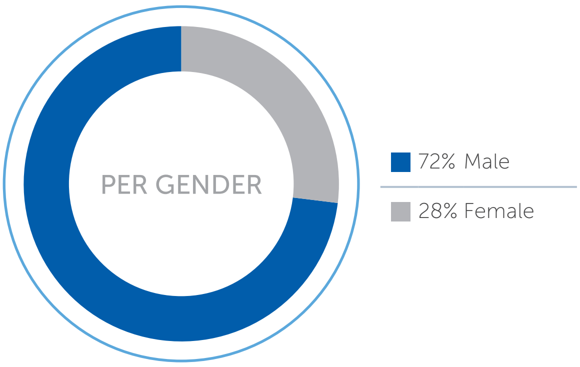
DENEL SOC LTD B-BBEE SCORE CARD

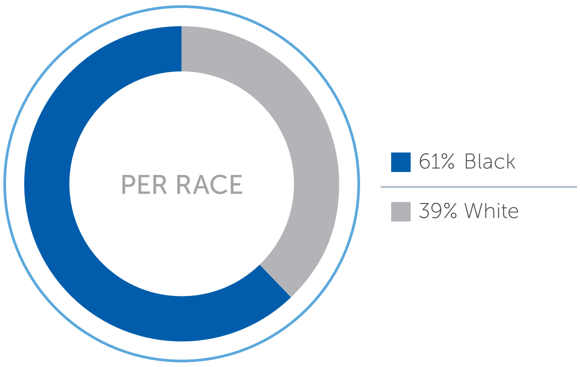


	Level	Total	Management Control	Skills Development	Localization	Enterprise and Supplier Development	Socio Economic Development
2017/18	6	71%	65%	82%	0%	66%	100%
2018/19	6	70%	15%	70%	28%	84%	100%

BEE CATEGORY

BEE Category	Element	2017/18		2018/19	
		Weighting	Score	Weighting	Score
HR DEVELOPMENT	**1. MANAGEMENT CONTROL**	**20**	**13,04**	**20**	**3**
	1.1 Board Participation	6	5	6	3
	1.2 Other Executive Management	3	2,5	3	0
	1.3 Senior Management	3	2,07	3	0
	1.4 Middle Management	3	0,84	3	0
	1.5 Junior Management	3	2,67	3	0
	1.6 Employees with Disabilities	2	0,95	2	0
INDIRECT EMPOWERMENT	**2. SKILLS DEVELOPMENT**	**25**	**20,5**	**25**	**17,54**
	2.1 SD Expenditure	13	4,98	12	5,19
	2.2 Learnership, Apprenticeship & Internships	12	11,59	13	11,95
	2.3 Absorbed	5	3,93	5	0,4
	3. ENTERPRISE AND SUPPLIER DEVELOPMENT	**50**	**32,92**	**50**	**41,86**
	3.1 Preferential Procurement	30	16,63	30	18,11
	3.1.2 Spend from DGS	2	0,94	2	1,76
	3.2 Supplier Development	15	10,67	15	15
	3.3 Enterprise Development	5	4,68	5	5
	3.4 Graduation & Job Creation	2	0	2	2
	4. LOCALIZATION	**0**	**0**	**10**	**2,75**
	5. SOCIO-ECONOMIC DEVELOPMENT	5	5	5	5
	4.1 Contributions	5	5	5	5
	TOTAL SCORE	**100**	**71,46**	**110**	**70,15**





GLOSSARY

ACRONYM	FULL DESCRIPTION
(Pty) Ltd	(Proprietary) Limited
AAD	Africa Aerospace and Defence Exhibition
ACI	African, Coloured and Indian
ACSA	Airports Company South Africa
AGM	Annual general meeting
Airbus	Airbus DS Optronics (Pty) Ltd
AISI	Aerospace Industry Support Initiative
AMD	South African Aerospace, Maritime and Defence Industries Association
AMO	Aircraft Maintenance Organisation
APC	Armoured personnel carriers
ARMSCOR	Armaments Corporation of South Africa
AS	Aerospace Standard
ATWG	Anti-tank guided weapon
B-BBEE	Broad-based black economic empowerment
BI	Black Industrialist
Board	Denel board of directors
BRICS	Brazil, Russia, India, China and South Africa
BVR	Beyond visual range
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CAE	Chier audit executive
CAR	Capital Adequacy Requirement
CCM	Continuous control monitoring
CEO	Chief executive officer
CFC	Controlled foreign currency
CFO	Chief financial officer
CGVR	Central guide vertical restraint
CHF	Swiss Franc
CIL	Centre of Innovation and Learning
Companies Act	South African Companies Act, no. 71 of 2008
COSO	Committee of Sponsoring Organisations of the Treadway Commission
C-RAM	Counter-rocket, artillery and mortar system
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
CVO	Contract variation order
DAe	Denel Aerostructures SOC Ltd
DAv	Denel Aviation
DCAC	Directorate of Conventional Arms Control
DD	Denel Dynamics
Dekra	German Motor Vehicle Inspections Association

ACRONYM	FULL DESCRIPTION
Denel Asia	Denel Asia LLC
Denel ISM	Denel Integrated Systems and Maritime
Denel OTR	Denel Overberg Test Range
Denel S3	Denel Sovereign Security Solutions
Deniprop	Denel Industrial Properties
DenRet	Denel retirement fund
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMG	Denel machine gun
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DoD&MV	Department of Defence and Military Veterans
DPE	Department of Public Enterprises
DPS	Damage per second
DRC	Democratic Republic of the Congo
DTA	Denel Technical Academy
DTC3	Denel Technical Cyber Command Centre
dti	Department of Trade and Industry
DVS	Denel Vehicle Systems (Pty) Ltd
EASA	European Aviation Safety Agency
EBIT	Earnings before interest and taxation
EC	Eurocopter
ED	Enterprise development
EE	Employment equity
Entity/(ies)	Denel's operating divisions or subsidiary
ERW	Explosive remnants of war
ESD	Enterprise supplier development
EUR	Euro
EXCO	Group executive committee of Denel
FIFO	First-in-first-out
G5	A towed howitzer of 155 mm calibre
G6	A 155mm self-propelled howitzer
GBADS	Ground-based air defence system
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GDP	Gross domestic product
GHG	Greenhouse gas
government	South African government, unless otherwise stated
GRI	Global Reporting Initiative

ACRONYM	FULL DESCRIPTION
ha	hectare
Hensoldt	Hensoldt Optronics (Pty) Ltd, previously known as Airbus DS Optronics (Pty) Ltd (Airbus)
HR	Human resources
HVAC	heating, ventilation and air-conditioning
IAS	International accounting standards
IBSA	India, Brazil and South Africa
ICT	Information communication technology
ICV	Infantary combat vehicle
IED	Improvised explosive device
IESBA	International Ethics Standards Board for Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGG	International Golden Group (GG) PJSC
IIR	Imaging Infrared
IIRC Framework	International Integrated Reporting Council Framework
IP	Intellectual property
IPAP	Industrial Policy Action Plan
IR Framework	Integrated Reporting Framework
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information technology
JARIC	Joint Air Reconnaissance Intelligence
JSE	Johannesburg stock exchange
KG	Kilogram
King III	King Code of Governance Principles and the King Report on Governance in South Africa 2009
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016
KL	Kilolitre
kWh	Kilowatt-hour
L	litres
LCT	Light combat turren
LED	Light Emitting Diode
LEO	Law enforcement officers
LLC	LLC Limited liability company
LMT	LMT Holdings SOC Ltd (RF)
m3	cubic metre
MEDDS	Mechem explosives and drug detection system

ACRONYM	FULL DESCRIPTION
MMP	Mobile Mortar Platform
MoD	Ministry of Defence
MOI	Memorandum of Incorporation
MPV	Mine-protected vehicles
MRAP	Mine-resistant ambush protected
MRO	Maintenance, repair and overhaul
NCPF	National Cybersecurity Policy Framework
NEMA	National Electrical Manufacturers Association
NIMR	NIMR Automative LLC
NT	National Treasury
OCI	Other comprehensive income
OEM	Original equipment manufacturer
OHS	Occupational health and safety
OHSAS	Occupational Health Safety Assessment Series
PAA	Public Audit Act, no. 25 of 2004
PAW	Personal Assault Weapon
PFMA	Public Finance Management Act, no. 1 of 1999
PLCM	Product lifecycle management
PLS	Pioneer Land Systems LLC
PMP	Pretoria Metal Pressings
PPPFA	Preferenctial Procurement Policy Framework Act
PR&T	Personnel, remuneration and transformation
PWD	People with disability
R&D	Research and development
R/Rand/ZAR	South African Rand
RAF	Road Accident Fund
RDM	Rheinmetall Denel Munition (Pty) Ltd
RF	Ring-fenced
RG-vehicle	Family of mine-resistant 4x4 light armoured vehicles
Rm	South African Rand million
RSA	Republic of South Africa
RSS	Ribs, spars and sword
RTD	Retired
S&E committee	Social and Ethics committee
SA	South Africa(n)
SA government	South African Government
SAAF	South African Air Force
SABS	South African Bureau of Standards
SACAA	South African Civil Aviation Authority
SANAS	South African National Accreditation System

ACRONYM	FULL DESCRIPTION
SANDF	South African National Defence Force
SANParks	South African National Parks
SANSA	South African National Space Agency
SAPS	South African Police Services
SARA	Small African Regional Aircraft
SARS	South African Revenue Services
SCM	Supply chain management
SDROW	Self-defence remotely-operated weapon
SEAFAR	Deep sea monitoring system
SED	Socio-economic development
SETA	Sector Education and Training Authority
SGD	Singapore Dollar
Shareholder	South African government
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
SOP	Schools Outreach Programme
SS77	762x51mm machine gun
STEM	Science, Technology, Engineering and Mathematics
t	tons
TD	Tawazun Dynamics LLC
TGP	Total guaranteed package
TMA	Turbomeca Africa (Pty) Ltd
TS	Top shells
UAE	United Arab Emirates
UAV	Unmanned aerial vehicle
UAVS	Unmanned aerial vehicle systems
UN	United Nations
URS	User requirement specification
US	United States
USA	United States of America
USD	United States Dollar
VAT	Value added tax
WFF	Wing-to-fuselage fairing

CORPORATE CONTACT DETAILS

DENEL SOC LTD

Registration number 1992/001337/30

The registered office of Denel SOC Ltd is situated at:

Denel Corporate Office	
Nellmapius Drive	PO Box 8322
Irene	Centurion
Gauteng	0046
South Africa	South Africa

CONTACT DETAILS:

Head office	
Telephone	+27 12 671 2700
Fax	+27 12 671 2793
Website	www.denel.co.za
Marketing	**Mark Minnies**
Telephone	+27 12 671 2758
Fax	+27 12 675 2751
Email	marketing@denel.co.za
Corporate communication	**Pam Malinda**
Telephone	+27 12 671 2970
Fax	+27 12 675 2751
Email	Pamm@denel.co.za
Finance	**Thandeka Sabela**
Telephone	+27 12 671 1313
Fax	+27 12 675 2751
Email	thandekas@denel.co.za
Fraud hotline	**+27 800 20 48 80**

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Designed and produced by:
Msomi Africa Communication (Pty) Ltd
www.msomiafrica.com

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RP351/2019
ISBN: 978-0-621-47928-7