

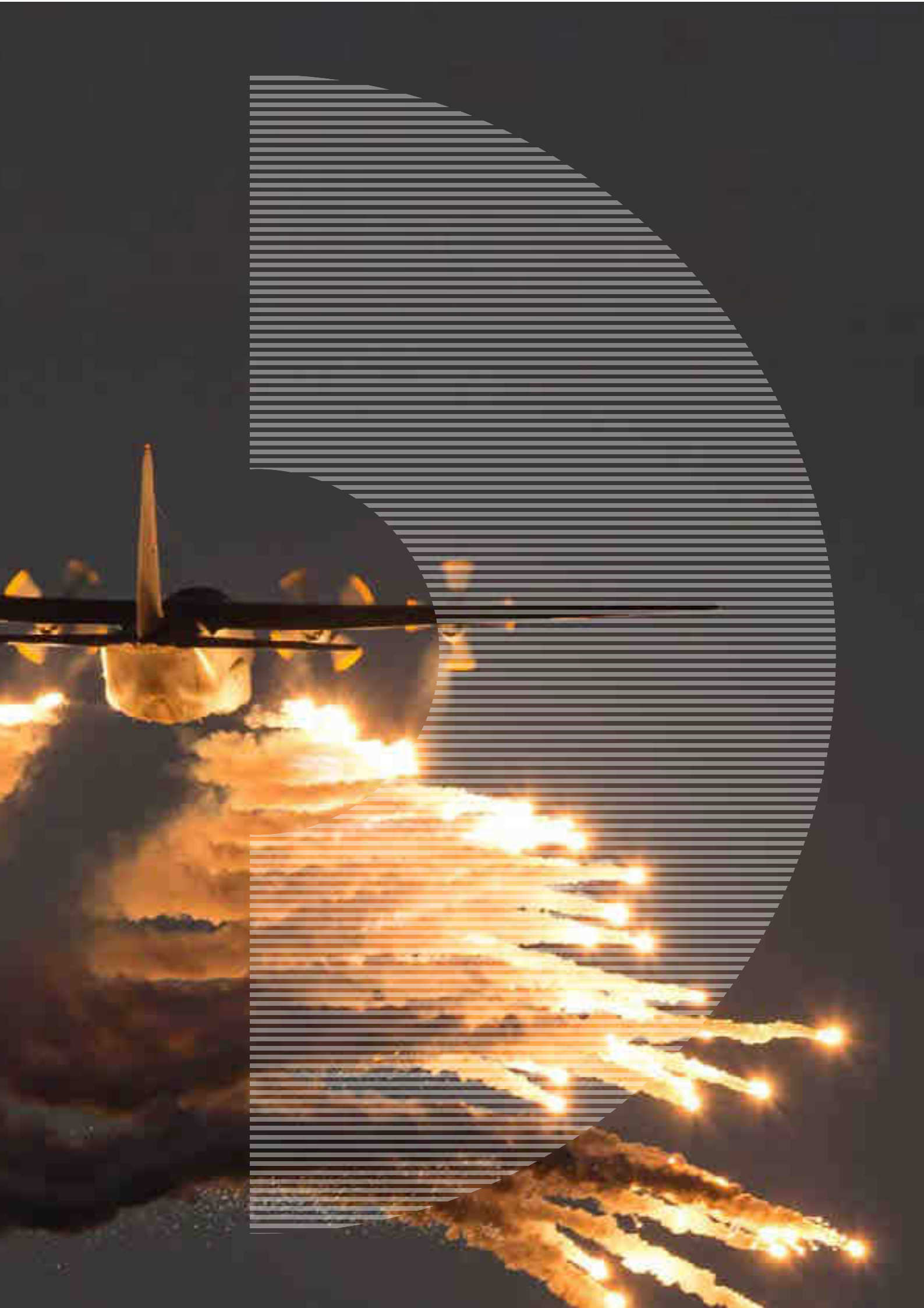


TWENTY 20/21

ANNUAL REPORT



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ANNUAL REPORT



ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations, and its ability to create value for the period 1 April 2020 to 31 March 2021. 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 52.

Non-financial information

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

- The Companies Act (Act 71 of 2008)
- The King IV Code on Corporate Governance

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.

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit and Risk Committee, has taken overall responsibility and accountability for this report. 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 48.



Mrs Gloria Tomatoe Serobe
Chairperson of the Board
Denel SOC



Ms T Mokgabudi
Chairperson of the Audit and
Risk Committee

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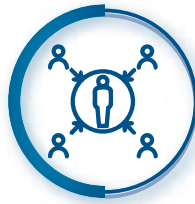


PART 1

WHO WE ARE



KEY PILLARS OF OUR VISION



Business centred on Clients and Markets



Transformed engaged and talented Team/
People



Focused Cash- and Profit Generating Growth



Denel Standard Operating Methods (DSOM)
based on a PIICA Value Driven Organisation



Attractive and innovative fit-for purpose
Product/Service offering



Strong relationship with Partners and
Stakeholders

DENEL VALUES



PERFORMANCE

We embrace operational excellence



INTEGRITY

We are honest, truthful and ethical



INNOVATION

We create sustainable, innovative solutions



CARING

We care for our people, customers, nations and environment



ACCOUNTABILITY

We take responsibility for our actions



DENEL

Denel SOC Ltd - A World Class Defence Technology Company



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

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

WHO WE ARE

ONE DENEL. ONE VISION. ONE PURPOSE!

Our business divisions are as follows:

DENEL AERONAUTICS



Denel Aeronautics 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. 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. These products 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 sub-system supplier for artillery, rapid-fire medium-calibre weapons, and combat vehicle systems.

DENEL VEHICLE SYSTEMS



Denel Vehicle Systems (DVS) is a subsidiary of Denel SOC Ltd, which provides turnkey vehicle systems to military and police customers in South Africa and in selected export markets. DVS has three divisions, i.e., OMC, Gear Ratio and 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.

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



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



CHAIRPERSON'S REPORT

These factors, no doubt, left their marks on Denel at a time when there was optimism that the company will accelerate the implementation of its comprehensive turnaround strategy.

Many of these processes were completed in the previous year, but others had to be reprioritised as the Board and management had to deal with immediate crises and implement steps to ensure the long-term survival of Denel.

Despite these issues Denel remains committed to the company's core values of performance, integrity, innovation, caring and accountability.

VITAL STRATEGIC ROLE

We remain convinced that Denel is a vital cog in the broader national efforts to safeguard the sovereignty of South Africa and protect the lives and interests of its citizens. Our contribution towards the defence industry stretches over decades and our footprint can be found across the wider technology, advanced manufacturing and innovation sectors.

Denel has, for some years now, experienced a weak balance sheet and was largely reliant on government guarantees to fund its operations. In addition, the local defence budget has remained stagnant and is no longer sufficient to support Denel and the South African defence industry. Denel had to, increasingly, rely on exports for growth and investment in research and development. This had a negative impact on Denel's mandate to preserve sovereign and strategic capabilities.

The weak balance sheet, low R&D budget, inadequate investment in technology, erosion of the skills base and limited access to stable export markets posed significant constraints to the long-term viability of Denel.

The defence budget has declined from 1,5% of GDP in 2013 to less than 1% in 2020/21. Denel increasingly has to look outwards for growth and the turnaround plan was developed as a response to these realities.

The past year has been an extremely turbulent period in Denel's history. The company's business, which has been under strain for a number of years, took severe knocks from the combined impact of the Covid-19 pandemic, the global economic turndown and a South African economy which continues to be characterised by low growth and budgetary constraints.

NATIONAL CONTEXT

In his 2020 State of the Nation Address, President Cyril Ramaphosa, emphasised that state-owned enterprises will play a critical role in government's efforts to build a capable state and place the economy on the path of recovery.

The Economic Reconstruction and Recovery Plan identified the defence and aerospace industries as key to economic growth, particularly with regards to localisation and exports. The Defence and Aerospace Masterplan was published during the course of the financial year.

TURNAROUND STRATEGY

The implementation of the turnaround strategy did produce tangible results since it was first introduced in 2018. The company has exited onerous contracts which placed a drag on its performance. It reduced the overdue payments to creditors and started legal actions to recover money lost through bad governance and state capture.

Denel will continue to explore strategic equity partnerships with defence and technology companies both within South Africa and in the global environment. This will enable Denel to enhance sustainable revenue and broaden our access to markets.

Such partnerships will, no doubt, have to be evaluated against our role as a state-owned company, the mandate we have received from government and our strategic positioning as defined in the Defence Review.

FUNDING REQUESTS

The Board took far reaching steps to secure funding to pay salaries and implement the turnaround strategy which will see Denel emerging as a far more streamlined and effective organisation.

An urgent request was submitted to the National Treasury to release funds for the recapitalisation of Denel to enable the company to deliver on key projects and positively affect the cash flow position.

The Board evaluated the appropriateness of the going concern assumptions used in the preparation of the

consolidated annual financial statements. It considered a number of factors, including the availability of sufficient funds to meet the group's requirements over the next 12 months, the commercial viability measured against contracts on the order book and in the pipeline, the progress made with the implementation of the turnaround strategy and the cash injection of received from the shareholder.

Based on these factors the directors are satisfied that Denel has adequate cash resources to continue operating as a going concern and this formed the basis for the preparation of the consolidated annual financial statements.

We conducted a review of Denel's capabilities to assess which parts of the business should be retained and which could be divested. The core capabilities which should form part of a restructured future Denel will include the land systems business – infantry, artillery and armoured vehicles – aeronautics, small and medium calibre ammunition, missile systems and unmanned aerial vehicles.

Denel is also looking at potential investors which can inject technology, retain jobs and ensure greater market penetration while sustaining strategic and sovereign capabilities for the SANDF.

CORPORATE GOVERNANCE

The Board has an unambiguous mandate from the Shareholder to repair the reputation of Denel, restore the highest standards of corporate governance and act decisively against all forms of corruption, malfeasance and irregular practices within the organisation. To achieve this the Board has given its full support to the investigations conducted by the Zondo Commission of inquiry into state capture and will work together with investigative agencies involved in the probe.

We value the unwavering support that we have received from our Shareholder. It demonstrates a confidence at high level and a commitment to support Denel through the next stages of the turnaround process.

The Board is confident that we will find sustainable solutions for our current challenges. We are convinced that a new and transformed Denel will survive and return

to profitability. We are committed to work together with the industry, our partners and shareholders to ensure we pass through this current stage of our history.

We will continue to emphasise the strategic value that an organisation such as Denel contributes to the country and the need for it to robustly survive if South Africa wants to meet its targets for industrialisation, investment in technology and participation in the knowledge economy.

APPRECIATION

During the year Mr Talib Sadik was succeeded as Interim Group CEO by Mr William Hlakoane. The Board expresses its sincere appreciation to them and other senior executives who continued to lead the organisation during the most trying period.

We continue to thank all employees across the company who suffered severe hardships because of the difficult financial conditions which prevailed within the company.

Through the years we have built strong and lasting relationships with stakeholders, suppliers, partners and the investor communities. These relationships were placed under severe strains during the year, but many of them survived and we are confident that we will be able to build on this in the years to come.

I wish to thank key role players and partners such as the Chief of the SANDF, the Secretary of Defence and the board and senior executive of Armscor for their support.

The Minister of Defence, has been a consistent advocate for a strong and resilient industry while the Minister of Public Enterprises, Pravin Gordhan and his management team have demonstrated their understanding of, and commitment to, the value that Denel can add to South African society.

A special word of appreciation must go to the Minister of Finance and his team at the Treasury for their valuable advice and support to ensure Denel can implement the required steps to remain financially viable.

The coming years will continue to be extremely difficult. However, the Board has confidence in the rationale for Denel's existence and will continue to oversee the implementation of the turnaround plan and ensure that good and effective corporate governance is fully restored.



Ms Gloria Tomatoe Serobe
Chairperson of the Board
Denel SOC

BOARD OF DIRECTORS

The board is responsible for strategic direction and oversight of the company.



MRS GLORIA TOMATOE SEROBE (61)

Bachelor of Commerce degree,
MBA

INDEPENDENT NON- EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

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

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

VALUE ADD TO THE BOARD:
Finance and business leadership



LIEUTENANT GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA (68)

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



MR THAMSANQA HEROLD MAGAZI (63)

Bachelor of Science in Business Administration, MBA

INDEPENDENT NON- EXECUTIVE DIRECTOR

Appointed to the board on 09 April 2018

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

BOARD OF DIRECTORS



MR MANDLA MARTIN MNISI (40)

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

INDEPENDENT NON- EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

DENEL BOARD COMMITTEE

MEMBERSHIPS: Member of the Finance and Investment committee and Risk committee

DIRECTORSHIPS: Director - MNS Attorneys

VALUE ADD TO THE BOARD: Legal, Corporate Governance and business leadership



MR KHOHLONG WILLIAM HLAKOANE (48)

ACTING GROUP CHIEF EXECUTIVE OFFICER and EX-OFFICIO DIRECTOR

Mechanical Engineer with an MBA from the Milpark Business School

DENEL BOARD COMMITTEE

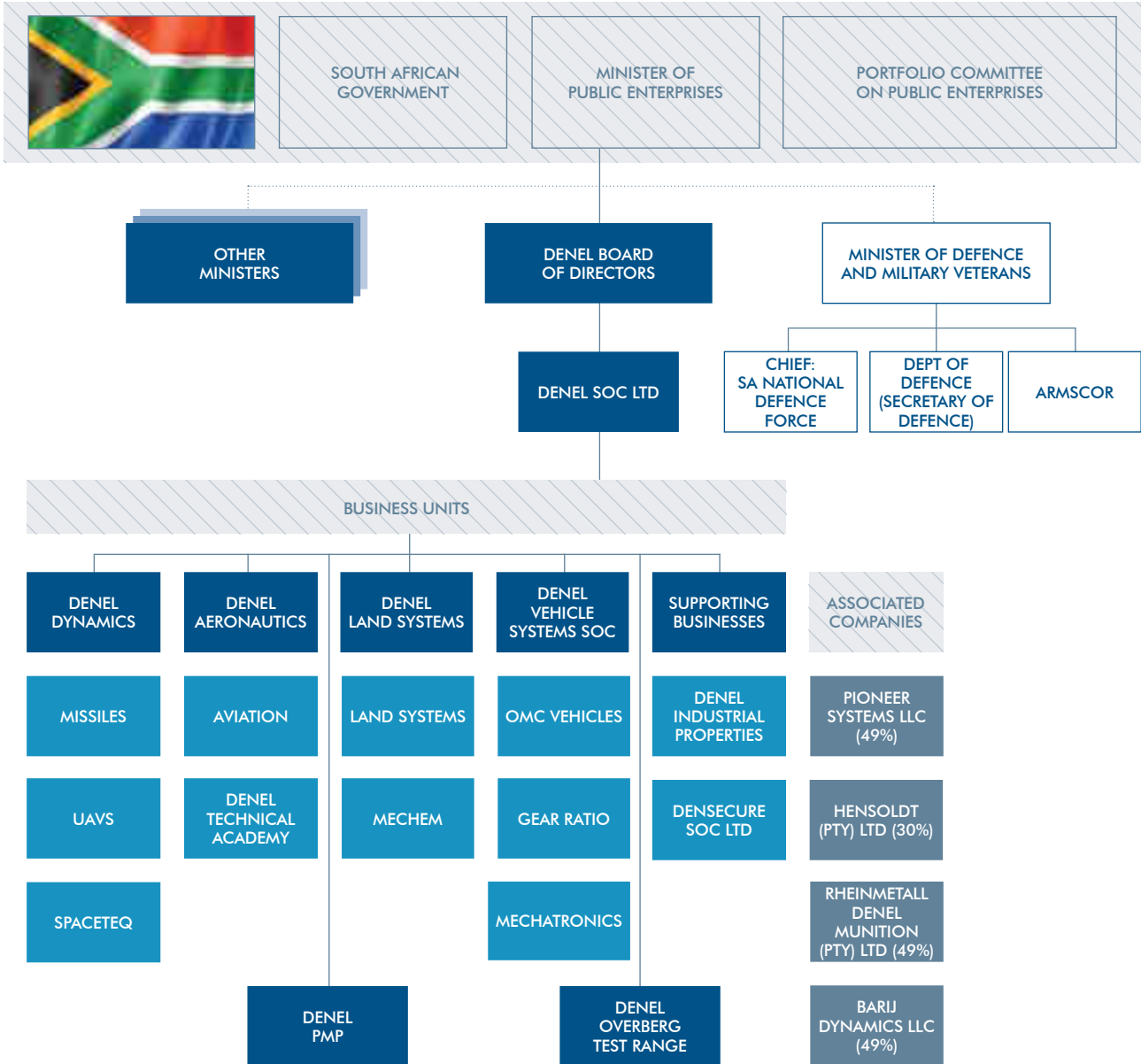
MEMBERSHIPS: None

DIRECTORSHIP: None

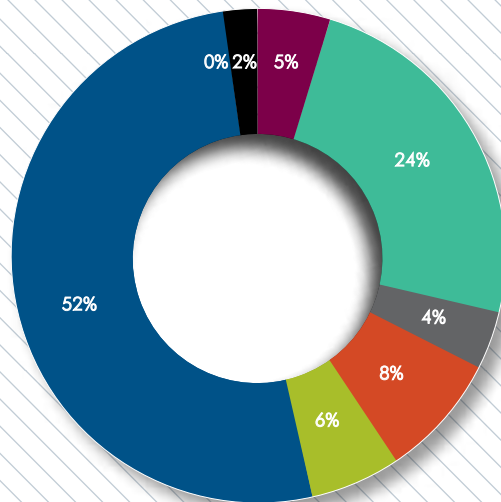
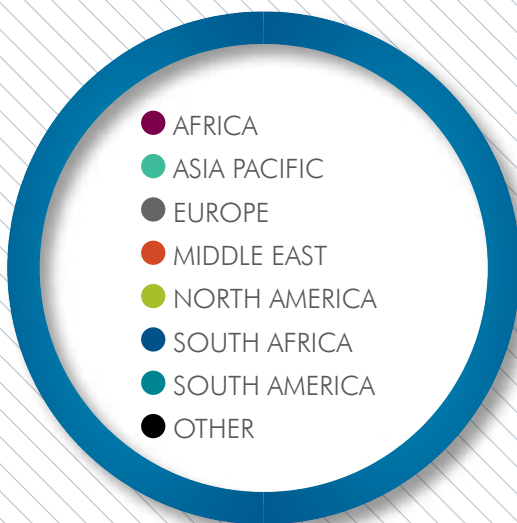
RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Engineering and systems engineering discipline, manufacturing sector, operations management and business acumen

ORGANISATIONAL STRUCTURE



OUR GLOBAL PRESENCE





D E N E
DENEL AEROSTRUC

PART 2

PERFORMANCE REVIEW





Denel emerges from an exceptionally difficult financial year in which the implementation of the company's turnaround plan was severely affected by a combination of internal and external factors.

CEO'S REPORT

The Covid-19 outbreak had a devastating impact on both the local and global economies since the first quarter of 2020. An extended lockdown period had severely affected the entire country and further exacerbated Denel's position.

Despite a healthy confirmed order book Denel was unable to secure the necessary capital or the support of suppliers to execute critical contracts.

This situation called for drastic cost reduction measures to ensure the future sustainability of Denel and save the company from possible liquidation. Management was confident that the radical cost reductions measures would allow the implementation of the turnaround strategy and corporate plan.

The turnaround plan has a strong focus on operational cost reduction, exiting onerous contracts, divestment of non-core assets and realising value through strategic equity partnerships.

STRATEGIC PRIORITIES

Management set itself clear priorities to survive and emerge from the difficulties that Denel experienced:

- The company had to generate revenue by retaining existing clients and finding new markets for Denel's products and services. There is still a significant potential to generate export revenue once export permits become available again and the global supply chain and logistic channels return to normal.
- On the back of this the company has to improve its cash generation potential and its liquidity position.
- It has to re-energise the turnaround actions including some of the actions which might have been delayed by the Covid-19 pandemic.
- It is of critical importance to continue with the efforts to improve the culture of performance at Denel.

Denel has to enter a new stage in its history in which we will build an entrepreneurial culture within the organisation and measure our performance by our ability to deliver on projects and products that can be industrialised.

I am confident that we will succeed because Denel remains a great organisation and we can count on the highest calibre of people with valuable skills and experience.

CORE VALUES

As a company we have defined four core values which will continue to guide our activities as we navigate our way through the current short-term challenges.

- We commit ourselves to integrity. We strive to be an honest, truthful and ethical company which can continue to be a key player in a very important sector of the economy.
- We have courage. We are willing to make difficult decisions and meet the challenges on the road head-on. We will push through uncomfortable situations because we believe this is necessary for the company to survive on a sustainable basis.
- We remain focused on performance and strive for high levels of excellence in every aspect of our business.
- We are accountable. We take ownership for our actions and do not escape responsibility for our behaviour.

FINANCIAL OVERVIEW AND FUNDING

The financial year was exceptionally challenging. Denel ended with a total comprehensive loss of R381m which can mostly be attributed to the delay on sales. It has also been negatively affected by reduced margins due to under recoveries flowing from reduced sales, and reduced margins on contracts caused by liquidity shortfalls.

Denel increased its Domestic Medium-Term Note programme from R3bn to R4bn to stabilise the company. Of this, an amount of R3,34bn is government-guaranteed which will mature on 30 September 2023.

During the year Fitch Ratings downgraded Denel's long-term rating from 'B (zaf) and short-term rating 'B (zaf) to 'CC(zaf)- with a negative outlook and confirmed the short-term rating at 'C (zaf).

CRITICAL MILESTONES

Despite the challenging business conditions Denel's businesses continued to achieve several milestones in the delivery of projects to our clients and partners.

As part of the managed wind-down of Denel Aerostructures (DAe) all the work packages were successfully transferred to DAe customers and all contractual matters including transfer costs and liquidated damages were addressed.

Denel Aeronautics continued to provide critical support services to the South African Air Force which enabled the SAAF to provide emergency assistance in the national efforts to combat the Covid-19 pandemic. Relationships with key stakeholders remained strong and Denel Aeronautics was able to maintain all its accreditations and certifications during the year.

Denel Vehicle Systems delivered the RG12 Mk6 prototype vehicle to the customer in the United Arab Emirates and this is expected to unlock future opportunities. The DVS Mechatronics Remote Camgun 30mm was successfully demonstrated in the UAE and the RG31 vehicle participated in summer trials in Saudi Arabia.

The Denel Overberg Test Range continued to provide in-flight test services to the SANDF and also supported the University of KwaZulu-Natal in the testing of its sounding rocket programme.

RECAPITILSATION

The current administration recognises the importance of industrialisation and increased investment, especially in advanced manufacturing which has the potential to achieve enhanced productivity, lower costs and more competitive exports. This is an area in which Denel can thrive and make the most tangible contributions to the country's economic recovery.

Although we received an equity injection of R1,8bn in the 2019/20 financial year with another R576m allocated for 2020/2021 this would not be adequate to resolve the liquidity and solvency challenges faced by the company. The financial projections for the 2020/21 financial year have to be revised due to the impact of Covid-19.

The company requested R3,8bn in financial support over the next three fiscal years from the National Treasury and is working closely with a technical team from the Department of Defence to find sustainable solutions.

During the year we have received a number of unsolicited offers for partnerships or equity from other players in the defence and technology sectors. Such offers will be explored, and we will follow all the relevant legislative requirements as we pursue opportunities and consider the range of options that are available.

Our immediate objective is to regain market access for our products and services and secure long-term strategic funding which will enable Denel to meet its sovereign and strategic mandates. The loss of such technology will put the country's defence capabilities at risk and have massive negative impact on large sections of the local defence industry.

ENGAGEMENTS WITH EMPLOYEES

Management had to take tough decisions to secure sufficient funds to pay salaries and cover its statutory payment obligations to employees. This proved to be an extremely tough period for the company which included a decision to suspend the monthly salaries of all employees in May 2020. Further funds were subsequently secured which enabled management to cover a portion of employees' salaries on a sliding scale in some months depending on the execution of projects.

Because of the non-payment of salaries, the company has lost critical skills to both domestic and foreign companies.

Denel continued to engage with government and stakeholders to mobilise resources to minimise the impact on employees. It entered into a comprehensive process of engagement with organised labour to seek their views on further cost containment measures.

Organised labour approached the Labour Court for relief which instructed Denel to settle the outstanding payments. Unfortunately, we were also affected by the departure of highly skilled engineers who were critical to the integrity of our capabilities and the completion of some key contracts.

Senior current and former officials testified before the Zondo Commission of Inquiry and answered questions relating to allegations of state capture committed by previous boards and management. Denel is committed to work with this and other investigations and is keenly aware of the impact that the evidence has had on the company's reputation and ability to participate in the key markets.

FUTURE PERSPECTIVE

Denel does not underestimate the size of the challenge, nor does it shy away from the reality that it will require far-reaching steps to bring the company back to

sustainability. Much of the future success will depend on the quality of leadership within the organisation, especially at divisional levels and our ability to mobilise support among our work force.

We are, however, equally convinced that a well-governed and revitalised Denel will be able to play a catalytic role in a future South African economy which will be characterised by game-changing leaps in technology and innovation.

APPRECIATION

The Shareholder continues to have confidence in the long-term viability of Denel as a company, especially once the turnaround plan has been implemented. Denel remains a strategic asset to the country, and we are confident that it will continue to prove its value to the broader society.

As management we are grateful for the continued strategic guidance that we received from the Minister of Public Enterprises and his senior leadership team, as well as the decision-makers in the Department of Defence and Military Veterans, the National Treasury, the SANDF and Armscor.

The Board of Denel, has been a pillar of wisdom and strategic guidance for management. We are confident that it will continue to provide direction and purpose as the company enters a new phase of its business.

Each and every staff member deserve recognition and respect for the immense sacrifices they have made to keep the company going. The turnaround and repositioning of Denel will be a difficult and trying process, but it is necessary. The revitalisation of Denel can only be achieved with the commitment and support of a capable and dedicated workforce.



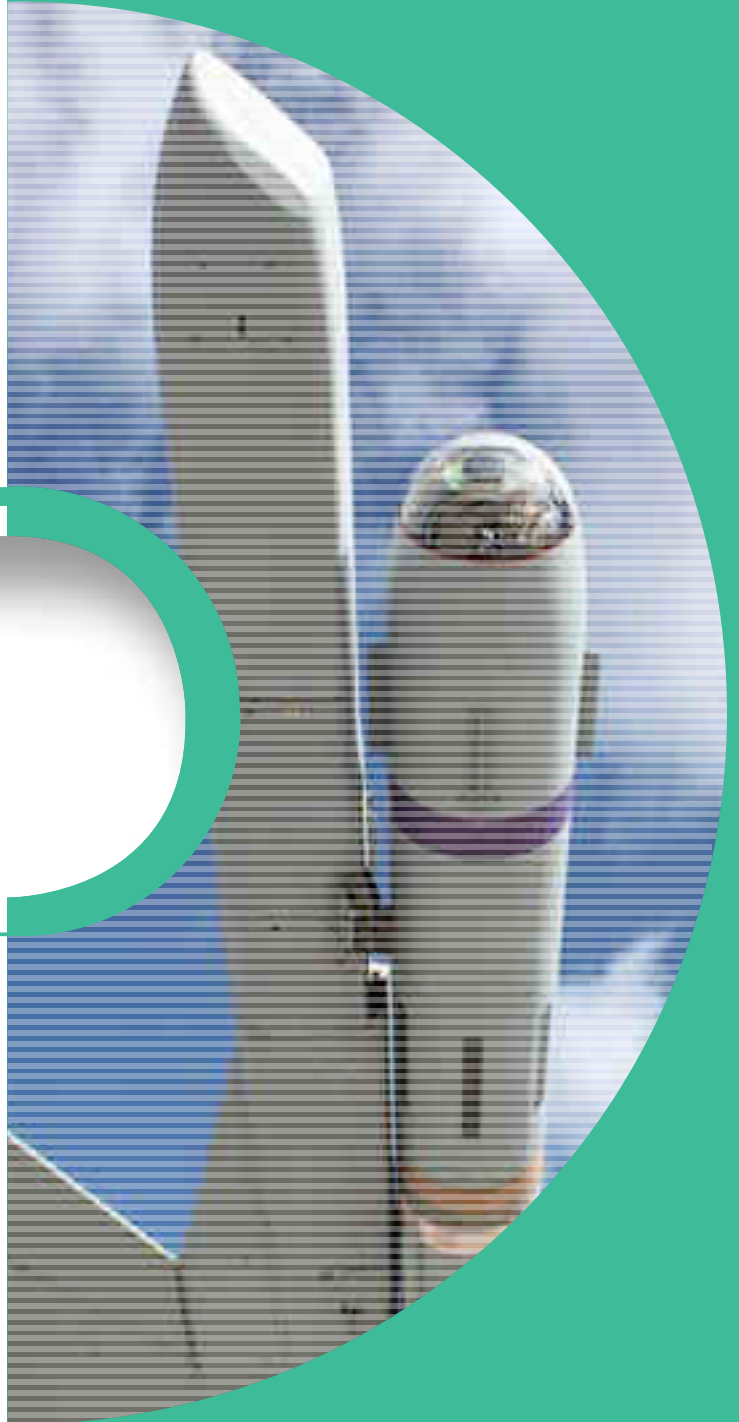
Mr William Hlakoane

Interim Group Chief Executive Officer



PART 3

OUR GOVERNANCE



OUR GOVERNANCE

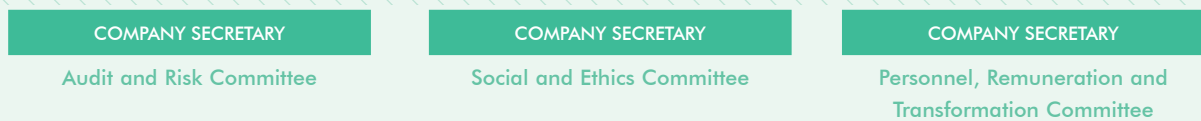
As a state-owned company (SOC), Denel's sole shareholder is the South African Government. The shareholder representative, the Minister of Public Enterprises, appoints a board of directors (the "Board") to oversee the functioning of the company's executive management. The company is, in essence, a group 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 applicable corporate governance principles. It further recognises that sound corporate governance enhances the long-term sustainability of the company and provides assurance to its stakeholders that the company is well managed. Risk management and internal control systems are in place, which are designed in accordance with best practice and in compliance with the recommended principles contained in the King Report on Governance (King IV report), as well as the statutory requirements contained in the Companies Act, No. 71 of 2008 (Companies Act), as amended, the Public Finance Management Act, No. 1 of 1999 as amended by the Public Finance Management Amendment Act, No. 29 of 1999 (PFMA) and the National Treasury Regulations.

THE BOARD CONSISTS OF THE FOLLOWING COMMITTEES:



SHAREHOLDER



DENEL BOARD OF DIRECTORS

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 sets out the 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.

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.

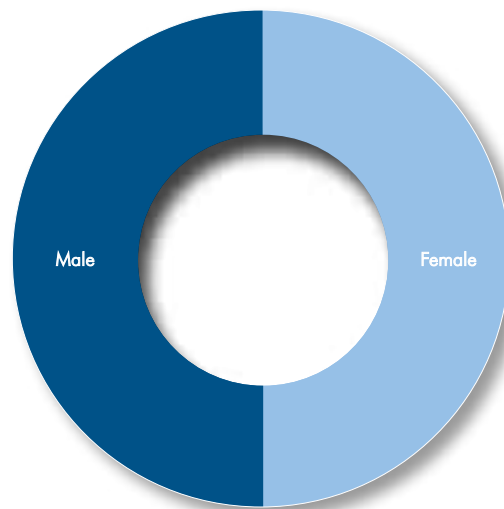
RESPONSIBILITY AND ACCOUNTABILITY

The Denel Board provides leadership and strategic direction and 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.

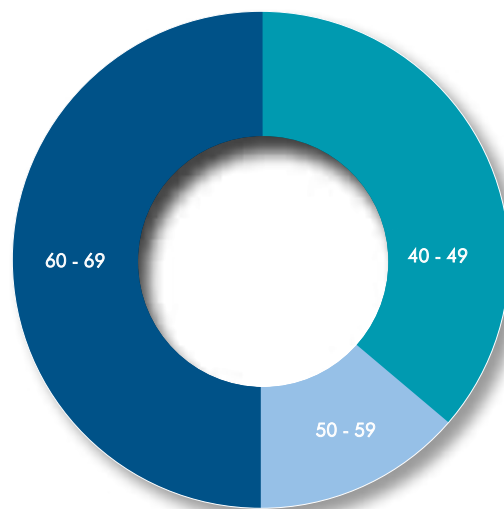
COMPOSITION OF THE BOARD

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

Board by Gender



Board by Age



APPOINTMENT AND RETIREMENT OF DIRECTORS

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

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

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

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

The following directors were appointed during the year:

- Talib Sadik (AGCEO) - 23 August 2020
- William Hlakoane (AGCEO) - 22 February 2021
- Thandeka Sabela (ACFO) - 29 March 2021

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

It is incumbent upon the Board to act in the best interest of the company at all times, as guided by the King IV report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is considered at every Board meeting and evaluated annually as part of the Board's

effectiveness review. This process creates value for the group and its stakeholders and ensures greater accountability. To ensure that governance best practice is applied, the Company Secretary performed a Board effectiveness review subsequent to the financial year end. The following areas were identified for improvement:

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

MANAGING CONFLICT OF INTEREST

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

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

BOARD INDUCTION AND SHARING OF INFORMATION

Given that Denel operates in a highly technical environment, a comprehensive induction for new directors assists them in acquiring a greater understanding of Denel's business operations, its range of products and services, as well as the manner in which these integrate into defence systems. As such, they need 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. It further implies that directors are continuously briefed on relevant new legislation and regulations. 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

With the Group Company Secretary being responsible for developing systems and processes to enable the board to discharge its specific functions, Denel ensures significantly enhanced organisational efficiency. This function has the effect of limiting risk and improving accountability. As such, the Group Company Secretary also advises the board on corporate governance issues, sets the annual plan for the board in conjunction with the chairperson and monitors compliance with relevant legislation, including the Public Finance Management Act, no. 1 of 1999, as amended (PFMA) and the Companies Act. The incumbent, to which all directors have access for company-relevant services and guidance, further has the important function of keeping the board updated on any new relevant legislation. Mrs Maryna Gie was permanently appointed as the Group Company Secretary from 10 January 2022.

BOARD MEETINGS

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

Key issues considered by the Board during the year included the financial position of the company, specifically monitoring going concern and solvency and liquidity, quarterly reports regarding performance. It sets and monitors strategy and sends the tone of the company values including principles of ethical business practice and requirements of being a responsible corporate citizen.

BOARD MEMBER	Total	Q1 (April – June 2020)			Q2 (July – Sept. 2020)				Q3 (Oct. – Dec. 2020)						Q4 (Jan. – March 2021)				
		Special 15 Apr 2020	Special 24 Apr 2020	Special 28 May 2020	31 Jul 2020	Special 17 Aug 2020	Special 24 Aug 2020	14 Sept. 2020	Special 15 Oct. 2020	29 Oct. 2020	Special 10 Nov. 2020	Strategy 25 Nov 2020	Strategy 26 Nov 2020	Special 15 Dec. 2020	Special 22 Jan. 2021	29 Jan 2021	Special 26 Feb 2021	Special 1 Mar 2021	3 Mar 2021
Ms MW Hlahla (Chairperson) ¹	13/15	V	V	V	A	V	A	V	V	V	V	V	V	V	V	V	V	V	V
Ms MK Lehloenywa ²	1/4	A	A	V	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mr TH Magazi	18/18	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Lt. Gen. TT Matanzima	13/18	V	V	V	A	V	A	V	V	A	V	V	V	V	A	V	V	V	V
Mr MM Mnisi	14/18	V	V	A	A	V	V	V	V	A	T	T	V	V	V	V	V	V	V
Dr H Nel ¹¹	15/18	V	V	V	V	V	V	V	V	V	V	V	V	V	A	V	V	V	V
Gen. S Nyanda (rtd) ³	10/13	V	V	V	A	V	V	V	V	V	T	T	A	-	-	-	-	-	-
Ms SR Rabkin ⁴	13/15	V	V	V	V	V	A	V	V	V	T	T	V	A	V	-	-	-	-
Mr MT Sadik ⁵	4/4	V	V	V	V	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mrs GT Serobe	18/18	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Dr SP Sibisi ⁶	15/15	V	V	V	V	V	V	V	V	V	T	T	V	V	V	-	-	-	-
Ms N Siyotula ⁷	14/15	V	V	V	V	V	V	V	V	V	T	T	V	V	V	-	-	-	-
Mr D Du Toit ⁸	4/4	V	V	V	V	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ms C le Grange ⁹	17/18	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V	V
Mr MT Sadik ¹⁰	11/11	-	-	-	-	V	V	V	V	V	V	V	V	V	V	-	-	-	-
Mr KW Hlakoane	8/10	-	-	V	-	V	V	V	V	V	-	-	V	V	V	-	-	-	-
Ms M Ngema	1/1	-	-	V	V	V	V	V	V	V	-	-	V	V	V	-	-	-	V
Mr KW Hlakoane ¹¹	3/3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	V

A = Apology
V = Video Conferencing
1 = Resigned on 26 February 2021
2 = Resigned on 14 January 2021
3 = Resigned on 21 January 2021
4 = Resigned on 18 February 2021
5 = Appointed IGCEO on 16 August 2020 and contract expired on 17 February 2021
6 = Resigned 16 February 2021
7 = Resigned 24 February 2021
8 = Resigned 11 July 2020
9 = Resigned 28 February 2021
10 = Resigned 30 March 2021
11 = Appointed AGCEO on 1 March 2021

REMUNERATION STANDARDS

The PR&T committee assists the board in reviewing non-executive directors' fees. Market benchmarks and the DPE's 2007 remuneration guidelines for SOCs are used to determine and make recommendations on non-executive directors' fees for presentation at the AGM for consideration and approval by the Shareholder.

The following amounts were either paid or accrued to the non-executive directors for the period 1 April 2020 to 31 March 2021 in line with the remuneration approved at the 2019 AGM. The Company worked with the Shareholder in the implementation of the 2017 remuneration guidelines, which would be done in a phased approach.

	Q1 to Q4 (April 2020 to Mar. 2021)
NON-EXECUTIVE DIRECTORS	R'
Ms MW Hlahla	857 926
Lt Gen. (rtd) TT Matanzima	208 288
Mrs GT Serobe	390 027
Mr MT Sadik	283 699
Ms SR Rabkin	331 350
Dr SP Sibisi	332 535
Ms N Siyotula	376 872
Mr TH Magazi	553 710
Mr MM Mnisi	297 280
Ms MK Lehloenya	194 782
Dr H Nel	532 428
Gen. (rtd) S Nyanda	253 392
Sub total	4 612 289
EXECUTIVE DIRECTORS	R'
Mr D Du Toit	1 282 758
Ms C Le Grange	3 278 325
Mr MT Sadik	2 158 546
Sub total	6 719 629
Total	10 022 798

BOARD COMMITTEES

The Board delegates specific responsibilities to three standing Board committees, namely the Audit and Risk Committee, the Personnel, Remuneration and Transformation Committee, and the Social and Ethics Committee, Risk and Finance and Investment. The Board committees assist the directors to discharge their duties and ensure the Board's effectiveness in discharging its duties. The committees' terms of reference and the Board Charter are reviewed annually to limit risk and ensure that they remain in line with relevant regulations, company requirements and best practice in corporate governance.

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

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

AUDIT AND RISK COMMITTEE

The Audit and 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 Audit and Risk Committee have considerable expertise in various fields, notably risk management, finance, accounting and the commercial and legal experience necessary to oversee and guide the Board.

The Audit and Risk Committee provides the following oversight support to the group: the external and internal audit functions, corporate governance and the governance of information technology. The appointment of members of the Audit and Risk Committee is considered at every AGM.

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

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

Key issues considered by the Committee during the year included the financial position of the company, specifically monitoring going concern and solvency and liquidity, quarterly reports regarding performance, reviewed audit reports including the internal control environment, reviewed audit plans and recommended audit fees, monitored risk and the appropriateness of the combined assurance model.

COMMITTEE MEMBER	Total	Q1 (April – June 2020)		Q2 (July – Sept. 2020)	
		Special 21 May 2020	12 June 2020	23 Jul 2020	Special 30 July 2020
Mr MT Sadik (Chairperson)	4/4	V	V	V	V
Dr. SP Sibisi	1/4	A	V	A	A
Mrs GT Serobe	4/4	V	V	V	V
Ms N Siyotula	4/4	V	V	V	V
Ms KM Lehloeny ¹	3/4	A	V	V	V
Mr TH Magazi	4/4	V	V	V	V

STANDING INVITEES					
Mr D Du Toit ²	3/4	V	V	A	V
Ms C Le Grange ³	4/4	V	V	V	V
Ms M Ngema	1/2	-	-	A	V
Mr KW Hlakoane	1/1	-	-	-	V

A = Apology

V = Video Conferencing

¹ = Resigned on 14 January 2021

² = Resigned 11 July 2020

SOCIAL AND ETHICS COMMITTEE

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

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

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

The Social and Ethics committee provides the following support activities to the board of directors:

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

Key issues considered by the Committee during the year included all matters relating to stakeholder management, corporate citizenship, ethics, social and economic development, occupational health, safety and environment management, corporate social investments and social and ethics related policies.

		Q1 (April – June 2020)	Q2 (July – Sept. 2020)	Q3 (Oct – Dec. 2020)	Q4 (Jan – Mar. 2021)
COMMITTEE MEMBER	Total	1 June 2020	No Meetings	16 Oct. 2020	26 Jan 2021
Dr H Nel ⁶ (Chairperson)	3/3	V	-	V	V
Ms SR Rabkin ¹	1/4	V	-	V	V
Ms MW Hlahla ²	4/4	V	-	V	V
Lt. Gen. TT Matanzima	4/4	V	-	V	V
Mr MT Sadik	3/4	V	-	-	-

		Q1 (April – June 2020)	Q2 (July – Sept. 2020)	Q3 (Oct – Dec. 2020)	Q4 (Jan – Mar. 2021)
COMMITTEE MEMBER	Total	1 June 2020	No Meetings	16 Oct. 2020	26 Jan 2021
STANDING INVITEES					
Mr D Du Toit ³	1/1	V	-	-	-
Ms C Le Grange ⁴	2/3	V	-	A	V
Mr KW Hlakoane	1/2	V	-	A	-
Ms M Ngema	3/3	V	-	V	V
Mr MT Sadik ⁵	2/2	-	-	V	V

A = Apology

V = video conferencing

¹ = Resigned on 18 February 2021

² = Resigned on 25 February 2021

³ = Resigned on 11 July 2020

⁴ = Resigned on 28 February 2021

⁵ = Appointed AGCEO on 16 August 2020 and contract expired on 17 February 2021

⁶ = Resigned 30 March 2021

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

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

The Personnel, Remuneration and Transformation Committee gives assurance that remuneration arrangements with employees support the group's strategic objectives and enable the recruitment, motivation and retention of senior executives, while complying with the requirements of regulations.

The responsibilities of the Personnel, Remuneration and Transformation Committee include reviewing the design and management of Denel's remuneration and reward principles, policies and implementation strategies.

The Personnel, Remuneration and Transformation Committee provides the following support activities to the board of directors:

- Evaluating the performance of the executive management, and for 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 by the Committee during the year included the consideration of a retention strategy, transformation and skills development, HR and remuneration policies, succession planning and performance contracts.

Personnel, Remuneration and Transformation Committee (previously, Human Capital and Remuneration Committee) meetings

COMMITTEE MEMBER	Total	Q1 (April – June 2020)			Q2 (July – Sept. 2020)			Q3 (Oct. to Dec. 2020)	Q4 (Jan. – Mar. 2021)	
		Special 9 April 2020	Special 8 May 2020	Special 15 Jun 2020	27 Jul 2020	Special 6 August 2020	Special 7 Sept 2020	Special 21 Sept 2020	21 Oct.2020	26 Jan. 2021
Mr TH Magazi (Chairperson)	9/9	V	V	V	V	V	V	V	V	V
Ms N Siyotula ¹	8/9	V	V	V	V	V	A	V	V	V
Ms MW Hlahla ²	6/9	V	V	V	A	A	V	V	A	V
Dr H Nel ⁷	9/9	V	V	V	V	V	V	V	V	V
Gen. S Nyanda (rtd) ³	7/8	V	V	V	V	V	V	A	V	-
STANDING INVITEES										
Mr D Du Toit ⁴	3/3	V	-	V	V	-	-	-	-	-
Ms C Le Grange ⁵	6/7	V	-	V	V	-	V	V	V	A
Ms M Ngema	6/7	-	-	V	V	-	V	V	V	V
Mr KW Hlakoane	5/6	V	-	-	V	-	V	V	A	V
Mr MT Sadik ⁶	2/2	-	-	-	-	-	-	-	V	V

A= Apology

V= Video Conferencing

¹= Resigned on 24 January 2021

²= Resigned on 25 February 2021

³= Resigned on 21 January 2021

⁴= Resigned on 11 July 2020

⁵= Resigned 28 February 2021

⁶= Appointed AGCEO on 16 August 2020 and contract expired 17 February 2021

⁷= Resigned 30 March 2021

1.1.1 Risk Committee Meetings

Denel's Risk 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 risk committee provides the following support activities to the board of directors:

- Reviews the risk faced by the company and its subsidiaries
- Reviews and assesses the risk control process and systems; and
- Considering risk management processes.

COMMITTEE MEMBER	Total	Q1	Q2	
		(April – June 2020)	(July – Sept. 2020)	
		20 May 2020	Special 20 Jul 2020	24 Jul 2020
Ms MK Lehloeny ¹ (Chairperson)	2/3	A	V	V
Mr MT Sadik	3/3	V	V	V
Mr MM Mnisi	2/3	V	V	A
Dr H Nel	3/3	V	V	V
Mr TH Magazi	3/3	V	V	V
Ms SR Rabkin	3/3	V	V	V
INVITEES (NED)				
Ms N Siyotula	1/1	-	-	V
STANDING INVITEES				
Mr D Du Toit ²	3/3	V	V	V
Ms C Le Grange	2/3	V	A	V
Ms M Ngema	2/3	V	V	A
Mr KW Hlakoane	3/3	V	V	V

A = Apology

V = Video Conferencing

¹ = Resigned on 14 January 2021

² = Resigned on 11 July 2020

FINANCE AND INVESTMENT COMMITTEE MEETINGS

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.

The Committee should assist the Board in carrying out its duties and responsibilities as they relate to Denel as well as the Denel divisions and subsidiaries ("the Denel Group"). The following is expected from the Committee:

The Committee should review and evaluate the:

- Quarterly financial reports
- Corporate plans
- Budgets; prior to submission and approval by the Denel Board
- Recommend the corporate plans, budgets, quarterly reports and financial announcements to the Board for approval
- Recommendation of an infrastructure strategy for incorporation in the Master Plan; a marketing strategy for the Company to the Board;

Monitoring and oversight of the Company's activities with regard to -

- The planning of infrastructure and fixed asset development
- The implementation of the strategic plan in regard to infrastructure development
- The transfer of land to the Company
- The development of infrastructure
- The progress with the development with infrastructure projects
- The business development activities of the Company
- Management, maintenance and estate management of all infrastructure owned by the Company

The Committee shall also evaluate the desirability of all new major capital projects for recommendation to the Board and inclusion in the budget in accordance with section 51(1)(a)(iv) of the Public Finance Management Act, 1999 (Act No. 1 of 1999). In conducting such evaluation, the Committee shall consider:

- The strategic nature of the proposed project
- The costs and benefits of the proposed project
- The funding likely to be available for the proposed project
- The likelihood that the proposed project will generate income for the company and the country
- The mandate of the company in terms of any project
- The benefits the project can bring to the country
- Where loan funding is obtained for a project, the financial viability thereof
- The desirability of the project in attracting or retaining customers

COMMITTEE MEMBER	Total	Q1 (April – June 2020)				Q2 (July – Sept. 2020)			Q3 (Oct. – Dec. 2020)	Q4 (Jan. – Mar 2021)	
		Special 14 April 2020	Special 19 May 2020	31 May 2020	Special 15 June 2020	Special 01 Jul 2020	28 Jul 2020	Special 27 Aug 2020	Special 11 Nov. 2020	Special 25 Jan. 2021	Special 23 Feb. 2021
Mrs GT Serobe (Chairperson)	10/10	V	V	V	V	V	V	V	V	V	V
Dr SP Sibisi ¹	6/9	V	V	V	A	A	V	V	A	V	-
Ms MK Lehloenyad ²	1/6	A	A	A	A	A	-	-	-	-	-
Mr MM Mnisi	5/10	V	A	A	A	V	V	V	V	A	A
Gen S Nyanda ³	6/8	V	V	A	A	V	V	V	V	-	-
INVITEES (NED)											
Ms M Hlahla	2/2		-	V	-	V	-	-	-	-	-
Dr H Nel	3/3	V	-	V	-	-	-	-	V	-	-
Mr TH Magazi	6/6	-	-	V	-	V	V	V	-	V	V
Ms N Siyotula	3/3	V	-	-	-	-	V	V	-	-	-
Mr MT Sadik	5/5	V	V	V	-	V	-	-	-	-	-
Ms SR Rabkin	7/7	V	V	-	-	V	V	V	V	V	-
Lt Gen. TT Matanzima	3/3	V	-	-	-	-	-	-	-	V	V
STANDING INVITEES											
Mr D Du Toit ⁴	4/5	V	-	V	V	A	-	-	-	-	-
Ms C Le Grange ⁵	6/9	V	-	A	V	V	A	V	V	A	V
Mr KW Hlakoane	7/8	V	-	V	-	A	V	V	V	V	V
Ms M Ngema	6/7	-	-	V	-	V	A	V	V	V	V
Mr MT Sadik ⁶	3/3	-	-	-	-	-	V	V	V	V	-

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1 = Resigned on 16 February 2021
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4 = Resigned on 11 July 2020
5 = Resigned on 28 February 2021
6 = Appointed AGCEO on 16 August 2020 and contract expired on 17 February 2021

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 Denel's procurement and legal departments.

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

INTERNAL CONTROL

The Board oversees the system of internal control within Denel, and the implementation of these systems rests with the executive management. On a regular basis, the board's Audit Committee 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 the process of risk governance. Business processes, delegations of authority, significant transactions, accounting and other management standards form part of the system of internal control

Internal control ensures the effective discharge of authority, the execution of significant transactions within the realm of the Materiality and 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 because, after an 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. They comply fully with the PFMA, Companies Act and other relevant legislation, including that of foreign countries where they conduct business.

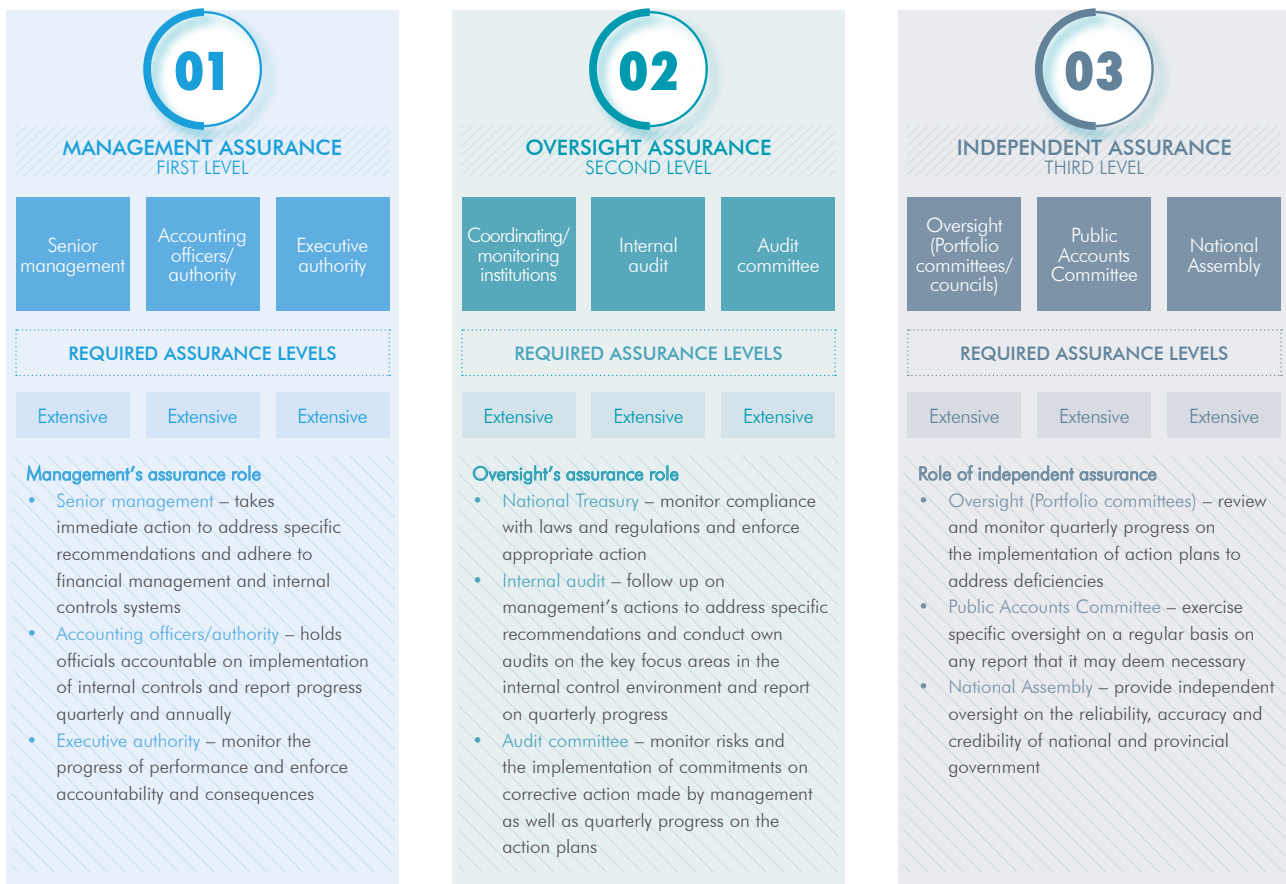
All business units are accountable to the GCEO. This material arrangement is further enhanced by each business unit CEO being part of the group Exco. In addition to the business development council and IT steering committee, various forums are held regularly, i.e., relating to arms control, business development, CFO, HR, legal, risk and compliance, security, SHEQ, supply chain and transformation. Operational matters 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 the management of self-assessments, observations, risk management, internal audit, external audit, and the Parliamentary Portfolio Committee as well as various external bodies. External bodies involved in Denel include the National Key Point Secretariat, the 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.



FRAUD AND CORRUPTION

Denel does not tolerate fraud and corruption and regards it as a cancer that should be eradicated as they have the propensity to bring the company's name into disrepute and destroy the company value. As a State-owned Company and a global trader in arms, regulators and the public expect the Board, management and staff to protect the company's assets and ensure fair, equitable and transparent process of procurement, avoid the abuse of supply chains, 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 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 where the 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, and awareness on ethics, and the prevention of fraud and corruption are included in the group's induction programme. Additionally, awareness about the prevention of fraud and corruption are continuously promoted through the group's newsletters and other forms of communication.

DETECTION OF FRAUD AND CORRUPTION

Denel's process to detect fraud and corruption 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 expenditures 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 relaunch 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 CONSEQUENCE MANAGEMENT

Denel has appointed a panel of forensic firms to conduct investigations under the supervision of the board’s Audit Committee. Disciplinary actions or criminal actions are being processed, as appropriate, on the cases concluded.

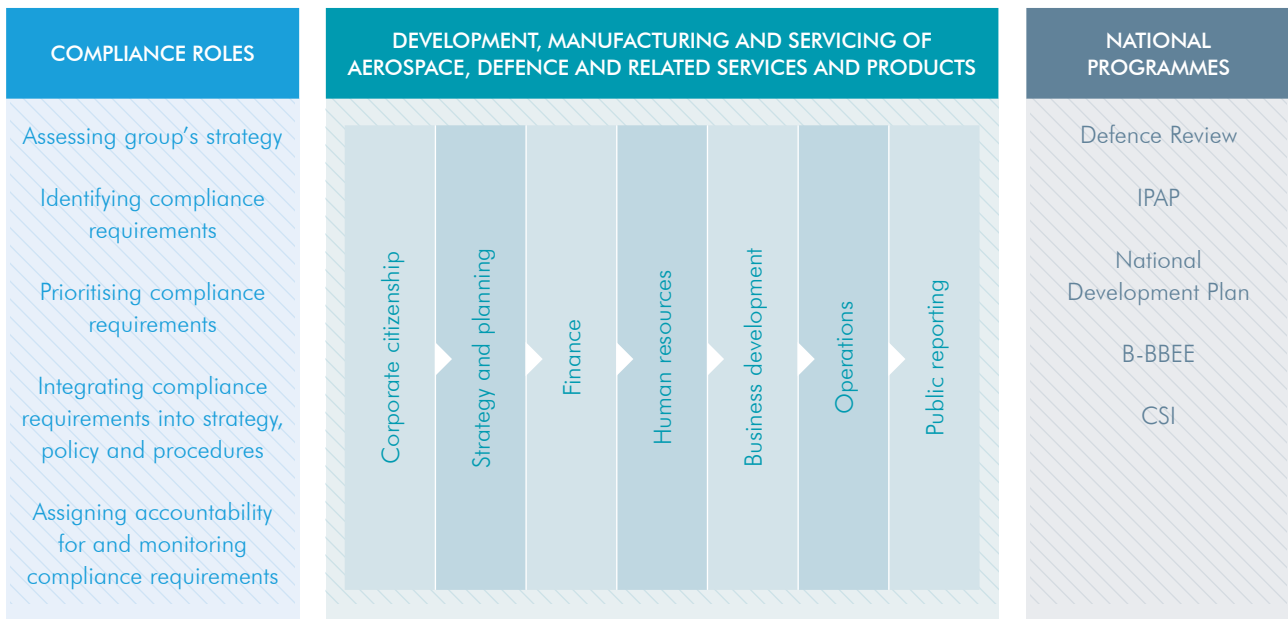
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

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



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



PART 4

CONSOLIDATED
ANNUAL FINANCIAL
STATEMENTS



DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual 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 auditors are engaged to express an independent opinion on the consolidated and separate annual financial statements.

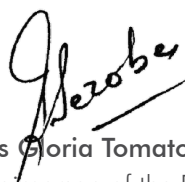
The consolidated and separate annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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 of directors 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 consolidated and separate annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently auditing and reporting on the group's consolidated and separate annual financial statements. The consolidated and separate annual financial statements have been examined by the group's external auditors and their report is presented on pages 52 to 64.

The consolidated and separate annual financial statements set out on pages 65 to 161, which have been prepared on the going concern basis, were approved by the board on 31 May 2024 and were signed on their behalf by:



Mrs Gloria Tomatoe Serobe
Chairperson of the Board Denel SOC



Mr William Hlakoane
Interim Group Chief Executive Officer

DIRECTORS' REPORT

The financial results in this report are based on the results of the Denel group, and in context the term 'group' refers to the company, its subsidiaries and associated companies. The nature of the group's business is described on page 9.

FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2021 Rm	2020 Rm
Revenue	2 315	2 810
Gross profit/(loss)	446	616
Other income	1 468	300
Operating expenditure	(1 855)	(2 266)
Earnings / loss before interest and tax (EBIT)	79	(1 350)
Net finance costs	(473)	(584)
Net Profit / (Loss) for the year	(428)	(1 805)

The 2020/2021 financial year proved another challenging year for Denel with the total comprehensive loss of R428m billion for the year compared to the loss of R1,8bn (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 is the disposal gain impact (R935m) of Denel Aerostructures despite its liquidation as at 31 March 2021.

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 R3,2 bn of debt is unconditionally guaranteed by the government and total debt amounted to R3,36bn (2019/20: R3,8bn) at year-end, resulting in net external interest paid of R191m (2019/20: R584m). This amount excludes the unwinding of interest on long-term provision. Refer to the funding section of this report on page 50.

IMPAIRMENT OF ASSETS

Denel Vehicle Systems

Denel performed an impairment test on Denel Vehicle Systems and impaired the total investment in full. 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 9 for further details.

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 R3,21bn (2019/20: R3,41bn). The debt was issued through commercial paper and Bonds. The group's borrowings are at an average interest rate of 7.27% (2019/20: 9.31%) that includes an average overnight borrowing rate of 8.28% (2019/20: 9.92%), and an average commercial paper programme interest rate of 6.26% (2019/20: 8,70%), which resulted in borrowing cost of R220m (2019/20: R309m restated) during the year.

Fitch Ratings downgraded Denel's long-term rating from 'B (zaf) and short-term rating 'B (zaf) to 'CC(zaf)- with a negative outlook and confirmed the short-term rating at 'C (zaf).

GOING CONCERN

The board made an assessment of the group's ability to continue as a going concern in the foreseeable future and resolved that whilst there are material uncertainties, Denel will continue as a going concern. Further details are note 42 on page 156 of the annual financial statements.

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 concerned on the systems of internal controls. This is based on the disclaimer audit opinion by the AGSA, the lack of internal audit function during the year and exodus of employees that impacts the segregation of duties controls as a result. A close monitoring of these controls is a key focus of the board.

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. The group identified and reported irregular expenditure of R3,2bn (2019/20:R3,1bn). To address the key areas identified there are a number of actions to be taken by management including:

Disciplinary and or other actions must be taken against individuals where there is evidence that the contravention was wilful and deliberate;

Personnel must be trained to ensure understanding of the legislation and required application; and

The supply chain environment must be restructured so that accountability lies within supply chains particularly at divisions.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in note 9 and 10 of the consolidated annual financial statements.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the shareholder. Directors do not have the authority to issue shares of the company. The company received recapitalisation of R 576 000 000 during the FY2020/21 financial year and issued 5 760 shares at R1 par value and premium of R575 994 240.

DIVIDENDS

No dividend was recommended for the 2020/21 year (2019/20: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated annual financial statements comply with IFRS to the extent that they are not disclaimed by the AG.

AUDITORS

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

AUDIT OUTCOME

Denel received a disclaimer opinion by the Auditor-General. The audit highlighted, amongst others, lapses in controls and inability to submit information within the required time.

DIRECTORATE

All details regarding the Board of Directors are discussed on pages 15 to 16.

Mrs Gloria Tomatoe Serobe
Chairperson of the Board Denel SOC



Mr William Hlakoane
Interim Group Chief Executive Officer

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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



Group Company Secretary

Report of the auditor-general to Parliament on Denel SOC Limited

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of the Denel SOC Limited (Denel) and its subsidiaries (the group) set out on pages 65 to 161, which comprise the consolidated and separate statement of financial position as at 31 March 2021, 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. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for disclaimer of opinion

Going concern

3. International Accounting Standards (IAS) 1, *Presentation of financial statements*, requires management to make an assessment of a group's ability to continue as a going concern when preparing financial statements. As indicated in note 42 to the consolidated and separate financial statements, the group has stated that the consolidated and separate financial statements have been prepared on a going concern basis. I was unable to obtain sufficient and appropriate audit evidence to support management's going concern assessment. Therefore, I am unable to confirm whether it is appropriate to prepare the consolidated and separate financial statements using the going concern basis of accounting. I was unable to confirm the going concern disclosure by alternative means. Consequently, I could not determine whether adjustments were required to the consolidated and separate financial statements and the going concern disclosure note in note 42 to the consolidated and separate financial statements.

Preparation of consolidated and separate financial statements

4. I was unable to obtain sufficient appropriate audit evidence regarding consolidation of two Denel subsidiaries, Denel Aerostructures SOC Ltd and Land Mobility Technology Holdings SOC Ltd (LMT), as neither the financial statements nor the underlying records were presented for audit purposes. In addition, I was unable to obtain sufficient appropriate audit evidence relating to the elimination of intercompany transactions and reclassification associated with the two subsidiaries, as mentioned. I was unable to confirm the consolidation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the consolidated financial statements.
5. I was unable to obtain sufficient appropriate audit evidence for the restatement of the comparative figures for the following financial statement items. I could not confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparatives of the following items in the financial statements:
 - Non-current assets held for sale stated at 2018-19: R56 million in note 26 to the consolidated financial statements
 - Loans receivable stated at 2018-19: R239 million to the consolidated financial statements
 - Share capital stated at 2019-20: R7 976 million (2018-19: R6 184 million) and 2018- 19: R6 176 million in note 19 to the consolidated and separate financial statements
 - Lease liabilities stated at 2019-20: R361 million and 2018-19: R315 million in note 5 to the consolidated and separate financial statements

- Other operating gains / losses stated at 2019-20: -R214 million (2018-19: -R228 million) and 2018-19: R171 million in note 30 to the consolidated and separate financial statements
- Other operating income stated at 2019-20: R300 million (2018-19: R439 million) in note 29 to the consolidated financial statements
- Share of profit / loss in the associate companies stated at 2019-20: R62 million (2018-19: R425 million) to the consolidated and separate financial statements.

Property, plant and equipment

- I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to a lack of adequate internal control systems and processes to maintain a complete fixed assets register and regular asset verifications. I was unable to confirm property, plant and equipment by alternative means.
- In addition, the group did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date, as required by IAS 16, *Property, plant and equipment*. As a result, some assets reached zero book values while still in use. Furthermore, the group did not present the impact of changes in estimates relating to useful lives and residual values as required by IAS 8, *Accounting policies, changes in accounting estimates and errors* in the consolidated and separate financial statements.
- Furthermore, the group did not assess property, plant and equipment for indicators of impairment in accordance with IAS 36, *Impairment of assets*. I was unable to determine the impact on the property, plant and equipment amount disclosed, as it was impracticable to do so.
- Consequently, I was unable to determine the impact on the following items in note 4 to the consolidated and separate financial statements (respectively), as it was impracticable to do so:
 - Property, plant and equipment stated at R714 million (2019-20: R852 million; 2018-19: R938 million) and R584 million (2019-20: R650 million; 2018-19: R722 million)
 - Depreciation stated at R34 million (2019-20: R122 million; 2018-19: R79 million) and R13 million (2019-20: R64 million; 2018-19: R18 million)
 - Impairment loss stated at R41 million and R41 million.

Intangible assets

- I was unable to obtain sufficient appropriate audit evidence for intangible assets due to the poor status of the accounting records. I could not confirm the intangible assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to intangible assets stated at R66 million (2019-20: R46 million and 2018-19: R55 million) and R36 million (2019-20: R42 million and 2018-19: R50 million) in note 8 to the consolidated and separate financial statements.

Right-of-use assets

- The group did not measure right-of-use of assets in accordance with the requirements of International Financial Reporting Standards (IFRS) 16, *Leases*. Right-of-use assets were not calculated using the present value of remaining lease payments resulting to the right-of-use assets being overstated by R148 million.
- In addition, the group did not include all disclosures of the right-of-use assets, as required by IFRS 16, *Leases*. I have not included the omitted information in the auditor's report, as it was impracticable to do so. Consequently, I was unable to determine the impact on the right-of-use assets, stated at R295 million (2019-20: R352 million) and R295 million (2019-20: R315 million) in note 5 to the consolidated and separate financial statements, because it was impracticable to do so.

Investment in associates

13. The group did not correctly account for gains and losses on intragroup transactions between Denel SOC Limited and the associate companies, as required by IAS 28, *Investments in associates and joint ventures*, due to the incorrect implementation of IAS 28 principles. The investment in associates was overstated by R123 million as disclosed note 10 of the consolidated financial statements.
14. Furthermore, the group did not adequately disclose the nature, extent and financial effect of the group's interest in associates in the investment in associates note 10 to the consolidated and separate financial statements, in accordance with IFRS 12, *Disclosure of interest in other entities*. The group did not disclose the significant judgement and assumptions as well as summarised information for some of the investment in associates held. In addition, the group did not disclose the other comprehensive income (fair value hedging) amount in relation to its material associate, Rheinmetall Denel Munition (Pty) Ltd. I have not included the omitted information in this auditor's report, as it was impracticable to do so.
15. I was unable to obtain sufficient appropriate audit evidence for the investment in associates as the group did not have adequate systems in place to ensure that the impairment of investment in associates were supported by sufficient appropriate audit evidence. I could not confirm investment in associates by alternative means.
16. Consequently, I was unable to determine the impact on the investment in associates, stated at R1 098 million (2019-20: R1 279 million; 2018-19: R1 299 million) to the consolidated financial statements, because it was impracticable to do so.

Deferred tax and taxation

17. I was unable to obtain sufficient appropriate audit evidence for deferred tax and taxation, as the group did not have adequate system in place to ensure that the deferred tax calculations were supported by sufficient appropriate audit evidence. I was unable to determine the correct adjustments to the tax losses and any other temporary differences, as required by IAS 12, *Income taxes*, because it was impractical to do so.
18. Furthermore, I was unable to confirm whether it was probable that the group would generate taxable profits against which deductible temporary differences can be used.
19. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:
 - Deferred tax asset stated at R197 million (2019-20: R154 million; 2018-19: R82 million) in note 15 to the consolidated financial statements.
 - Taxation stated at R48 million (2019-20: R67 million; 2018-19: R68 million) and R1 million (2019-20: R0; 2018-19: R1 million) in note 33 to the consolidated and separate financial statements, respectively.

Inventories

20. I was unable to obtain sufficient appropriate audit evidence for inventories, due to status of record keeping, lack of adequate internal controls in the group's information technology systems applied in the management of inventory and inadequate controls to reconcile the financial statements to underlying accounting records and supporting schedules. In addition, unreconciled discrepancies were noted between underlying stock records and inventory items physically verified. Furthermore, sufficient and appropriate audit evidence was not provided to support the assumptions made for the write-down of inventory to the lower of cost or net realisable value, as required by IAS 2, *Inventories*. I was unable to confirm inventories balance by alternative means.
21. The group did not correctly apply the principles of IAS 2 relating to standard costing, as the standard costing variances were calculated incorrectly and standard cost set did not approximate the actual amounts. I was unable to determine the value of the misstatement, as it was impracticable to do so.

22. Consequently, I was unable to determine whether adjustments were necessary to the following line items in the consolidated and separate financial statements, as it was impracticable to do so:
- Inventories stated at R1 722 million (2019-20: R2 090 million; 2018-19: R2 474 million) and R1 610 million (2019-20: R1 924 million; 2018-19: R2 220 million) in note 17 to the consolidated and separate financial statements, respectively.
 - Cost of sales stated at R1 849 million (2019-20: R2 194 million; 2018-19: R3 926 million) and R1 967 million (2019-20: R2 264 million; 2018-19: R3 377 million) in note 28 to the consolidated and separate financial statements, respectively.

Trade and other receivables

23. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables due to the status of record keeping. In addition, I was unable to obtain sufficient and appropriate evidence that the group adequately accounted for the expected credit losses on trade receivable in accordance with IFRS 9, Financial Instruments, due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm trade and other receivables by alternative means. Consequently, I was unable to determine whether adjustments were necessary to trade and other receivables stated at R649 million (2019-20: R742 million; 2018-19: R833 million) and R615 million (2019-20: R665 million; 2018-19: R697 million) in note 11 to the consolidated and separate financial statements, respectively.

Contract assets

24. I was unable to obtain sufficient appropriate audit evidence for contract assets due to the poor status of the accounting records. I could not confirm contract assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contract assets stated at R907 million (2019-20: R668 million and 2018-19: R850 million) and R896 million (2019-20: R620 million and 2018-19: R528 million) in note 12 to the consolidated and separate financial statements.

Advance payments made

25. I was unable to obtain sufficient appropriate audit evidence for advance payments made, due to inadequate controls to reconcile the financial statements to underlying accounting records. I was unable to confirm advance payments made by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to advance payments made stated at R280 million in note 16 to the separate financial statements.

Cash and cash equivalents

26. I was unable to obtain sufficient appropriate audit evidence that foreign bank accounts included in cash and cash equivalents had been properly accounted for, due to the status of accounting records. I was unable to confirm these bank accounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R554 million and R505 million in note 18 to the consolidated and separate financial statements.

Non-current assets held for sale

27. The group did not correctly measure the value of non-current assets held for sale at the lower of fair value less costs to sell and the carrying amount and did not assess the non-current assets for impairment, as required by IFRS 5, *Non-current assets held for sale and discontinued operations*. I was unable to determine the value of the misstatement as it was impracticable to do so.
28. In addition, the group did not include all disclosures of the non-current assets held for sale as required by IFRS 5, *Non-current assets held for sale and discontinued operations*. I have not included the omitted information in the auditor's report, as it is impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to non-current asset held for sale stated at R190 million (2019-20: R178 million) and R56 million (2019-20: R56 million) in note 26 to the consolidated and separate financial statements.

Provisions

29. The group did not have adequate internal control systems to reconcile the financial statements to the underlying accounting records and account for all the provisions as required by IAS 37, *Provisions, contingent assets and contingent liabilities* resulting to understatement of provisions included in the annual financial statements. I was unable to determine the value of the misstatement as it was impracticable to do so.
30. In addition, I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of the records keeping and inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the provisions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to provisions stated at R560 million (2019-20: R818 million and 2018-19: R1 207 million) and R473 million (2019-20: R461 million and 2018-19: R444 million) in note 23 to the consolidated and separate financial statements.

Trade and other payables

31. The group did not have adequate internal control systems to recognise and account for all the trade payables transactions, as required by IAS 1, *Presentation of financial statements and Conceptual framework*. I identified creditors amounting to R161 million that were understated and not included in the trade and other payables balance in the financial statements.
32. I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to a lack of proper record keeping and inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the trade and other payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables stated at R1 774 million (2019-20: R1 475 million and 2018-19: R1 909 million) and R1 561 million (2019-20: R1 215 million and 2018-19: R1 553 million) in note 25 to the consolidated and separate financial statements.

Advance payments received

33. The group did not have adequate internal control systems to recognise and account for all the advance payments received transactions as required by IAS 1, *Presentation of financial statements and Conceptual framework*. I identified advance payments received amounting to R98 million that were understated and not included advance payments received balance in the financial statements.
34. At Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, I was unable to obtain sufficient appropriate audit evidence for advance payment received due to a lack of proper record keeping. I was unable to confirm the advance payments by alternative means. I was unable to determine the value of the misstatement, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to advance payments received stated at R2 658 million in note 22 to the consolidated financial statements.

Contract liabilities

35. I was unable to obtain sufficient appropriate audit evidence for contract liabilities due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the contract liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contract liabilities stated at R1 463 million and R1 429 million in note 21 to the consolidated and separate financial statements.

Lease liabilities

36. The group did not calculate lease liability using the present value of remaining lease payments, in accordance with IFRS 16, *Leases*, resulting in the lease liabilities being overstated by R131 million.

37. In addition, the group did not include all disclosures of the lease liabilities, as required by IFRS 16, *Leases*. I have not included the omitted information in the auditor's report, as it was impracticable to do so. Consequently, I was unable to determine the impact on the lease liability, stated at R341 million; (2019-20: R361 million) and R341 million (2019-20: R315 million) in note 5 to the consolidated and separate financial statements, respectively, because it was impracticable to do so.

Post-retirement benefit obligation

38. During 2020, the group did not correctly disclose the net actuarial gains and losses on the defined benefit assets in terms of IAS 19, *Employee benefits*, resulting in net benefit income being overstated by R95 million (2018-19: R102 million) as disclosed in note 14 to the consolidated and separate financial statements respectively. Consequently, I was unable to determine whether any further adjustments were necessary to the net actuarial gains and losses on the defined benefit assets stated at R105 million (2018-19: R105 million) to the corresponding figures in note 14 to the consolidated and separate financial statements respectively. My audit opinion on the financial statements for the period ended 31 March 2020 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the net benefit income in the current period.

Loans and borrowings

39. I was unable to obtain sufficient appropriate audit evidence for loans and borrowings due to inadequate accounting systems and a lack of proper record keeping. I could not confirm loans and borrowings by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to loans and borrowings stated at R3 365 million (2019-20: R3 800 million; 2018-19: R3 576 million) and R3 365 million (2019-20: R3 474 million; 2018-19: R3 523 million) in note 20 of consolidated and separate financial statements.

Revenue

40. I was unable to obtain sufficient appropriate audit evidence for revenue due to inadequate accounting systems and a lack of proper record keeping. I could not confirm revenue by alternative means.

41. The group did not adequately disclose the significant financing component revenue in accordance with IFRS 15, *Revenue from contracts with customers*.

42. Furthermore, the group did not adequately disclose the accounting policy note 1.5.1 to the consolidated financial statements relating to the revenue transaction price consistently to the group's accounting for significant financing component on revenue and contract liabilities as required by IFRS 15, *Revenue from contracts with customers*.

43. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively:

- Revenue stated at R2 315 million (2019-20: R2 810 million; 2018-19: R3 360 million) and R2 156 million (2019-20: R2 610 million; 2018-19: R3 145 million) in note 27.
- Contract assets stated at R907 million (2019-20: R668 million; 2018-19: R850 million) and R896 million (2019-20: R620 million; 2018-19: R528 million) in note 12.
- Cost of sales stated at R1 849 million (2019-20: R2 194 million; 2018-19: R3 926 million) and R1 967 million (2019-20: R2 264 million; 2018-19: R3 377 million) in note 28.
- Trade and other receivables stated at R649 million (2019-20: R742 million; 2018-19: R833 million) and R615 million (2019-20: R665 million; 2018-19: R697 million) in note 11.
- Segment reporting disclosure note 27 to the consolidated and separate financial statements.

Cost of sales and operating expenditure

44. I was unable to obtain sufficient appropriate audit evidence for cost of sales and operating expenses, due to status of record keeping, lack of adequate internal controls in the group's information technology systems applied in the management of cost of sales and inadequate controls to reconcile the financial statements to underlying accounting records and supporting schedules. I could not confirm the cost of sales and operating expenses by alternative means.
45. In addition, the group did not classify and present cost of sales and operating expenses in terms of IAS 1, *Presentation financial statements*. I am unable to determine the cost of sales and other operating expenses by alternative means.
46. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively.
- Cost of sales stated at R1 849 million (2019-20: R2 194 million; 2018-19: R3 926 million) and R1 967 million (2019-20: R2 264 million; 2018-19: R3 377 million) in note 28.
 - Operating expenses stated at R1 358 million (2019-20: R2 052 million; 2018-19: R2 761 million) and R907 million (2019-20: R1 495 million; 2018-19: R1 755 million).
 - Trade and other payables stated at R1 774 million (2019-20: R1 475 million; 2018-19: R1 909 million) and R1 561 million (2019-20: R1 215 million; 2018-19: R1 553 million) in note 25.
 - Accumulated loss stated at R11 333 million (2019-20: R10 435 million; 2018-19: R8 675 million) and R12 223 million (2019-20: R11 087 million; 2018-19: R9 284 million) to the consolidated and separate financial statements.

Other operating income

47. I was unable to obtain sufficient appropriate audit evidence for other operating income due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the other operating income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other operating income stated at R1 468 million (2019-20: R300 million; 2018-19: R439 million) in note 29 to the consolidated financial statements.

Finance cost

48. I was unable to obtain sufficient appropriate audit evidence for the finance cost due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the finance costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance costs stated at R500 million and R482 million in note 32 to the consolidated and separate financial statements.

Investment income

49. I was unable to obtain sufficient appropriate audit evidence for investment income due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the investment income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment income stated at R27 million and R26 million in note 31 to the consolidated and separate financial statements.

Statement of cash flows

50. The group did not correctly calculate, prepare and disclose the cash flows statement, as required by IAS 7, *Statement of cash flows*. There were multiple errors in determining cash flows in the cash flow statement. I was unable to determine the full extent of the errors in the net cash flows as indicated below in the cash flow statement, as it was impracticable to do so. In addition, I was unable to confirm the net cash flows due to limitations reported in the basis for the disclaimer of opinion paragraphs. Consequently, I was unable to determine whether any adjustments to below were necessary.

- Net cash flows from operating activities, stated at -R123 million (2019-20: -R2 361 million; 2018-19, R1 161 million) and -R330 million (2019-20: -R1 732 million; 2018-19: -R50 million).
- Net cash flows from investing activities, stated at -R98 million (2019-20: R264 million; 2020-21: -R361 million) and R53 million (2019-20: R0 million; 2018-19: -R101 million).
- Net cash flows from financing activities, stated at R123 million (2019-20: R2 159 million; 2018-19: -R2 407 million) and R195 million (2019-20: R1 841 million; 2018-19 - R833 million).

Irregular expenditure

51. Section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999 (PFMA) requires the public entity to include particulars of irregular expenditure incurred in the notes to the financial statements. The group did not include all irregular expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of irregular expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so.
52. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 45 to the consolidated and separate financial statements, as sufficient appropriate audit evidence was not provided and the amount disclosed did not agree to underlying accounting records. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure disclosed at R983 million (2019-20: R3 194 million and 2018-19: R2 901 million) and R505 million (2019-20: R1 702 million and 2018-19: R1 554 million) in note 45 to the consolidated and separate financial statements.

Fruitless and wasteful expenditure

53. Section 55(2)(b)(i) of the PFMA requires the public entity to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The group did not include all fruitless and wasteful expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so.
54. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure disclosed at R97 million (2019-20: R169 million) and R89 million in note 44 to the consolidated and separate financial statements.

Related parties

55. The group has extensive related-party transactions with other companies in the group, as well as with other government entities on non-standards terms and conditions. Contrary to the requirements of IAS 24, *Related party disclosures*, related party relationships with other entities, or the transactions and balances with these parties were not adequately prepared and disclosed in note 38 of the consolidated and separate financial statements.
56. In addition, I was unable to obtain sufficient appropriate audit evidence for the related-party transactions and balances due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for the related party disclosure in note 38 of the consolidated and separate financial statements.

Contingent liabilities

57. I was unable to obtain sufficient appropriate audit evidence for the contingent liabilities due to the status of record keeping. In addition, the group did not maintain accurate and complete records of the contractual information used to determine total guarantees, litigation, contract losses, site restorations and counter trade information disclosed in note 37. I was unable to confirm the contingent liabilities by alternative means.
58. Consequently, I was unable to determine whether any adjustments were necessary to the contingent liabilities amounts disclosed in note 37 to the consolidated and separate financial statements.

Financial instruments and risk management

59. The group did not adequately disclose the financial instruments and risk management in accordance with IFRS 7, *Financial Instruments – Disclosures* and IAS 1, *Presentation of Financial Statements*. The group did not adequately disclose the nature of and risks arising from financial instruments to which they were exposed during the period and at the end of the period, and how they were managing those risks, in the financial risk management note 41 to the consolidated and separate financial statements, in accordance with IFRS 7, *Financial instruments disclosure*. The group did not disclose sensitivity analyses for market risks, nor the principles and methods used to arrive at the fair values and the effect of prior period errors. Furthermore, the group could not provide the basis and the supporting documentation for the fair values disclosed in note 41 to the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustments were necessary to note 41 of the consolidated and separate financial statements.

Prior period error

60. The group did not disclose all prior period errors restated on the comparative figures on note 40, as required by IAS 8, *Accounting policies, changes in accounting estimates and errors*. Furthermore, I was unable to obtain sufficient appropriate audit evidence for these prior period errors restated on the comparative figures due to the status of record keeping. I was unable to confirm prior period errors by alternative means. In addition, the nature and the amount of the correction for some consolidated and separate financial statement items affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. Consequently, I was unable to determine the full extent of the prior period error as disclosed in note 40 to the consolidated and separate financial statements, as it was impracticable to do so.

Segment reporting

61. The group did not adequately prepare and disclose segment reporting, as required by IFRS 8, *Operating segments*. Multiple errors were identified in determining segments reported. In addition, the amount disclosed in the consolidated and separate financial statements were materially misstated, as they did not agree to the underlying records. This was because the group did not have adequate internal control systems and processes in place to reconcile the underlying accounting records to the consolidated and separate financial statements. I was unable to determine the full extent of the errors in the segment reporting note 27, as it was impracticable to do so.

Responsibilities of the accounting authority for the consolidated and separate financial statements

62. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the requirements of the PFMA and Companies Act 71 of 2008 (Companies Act) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

63. In preparing the financial statements, the accounting authority is responsible for assessing the public entity'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 public entity or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

64. 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.

65. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

66. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected objectives presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

67. I could not perform the audit as the annual performance report was not prepared as required by section 55(2)(a) of the PFMA.

Report on compliance with legislation

68. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the public entity's compliance with legislation.

69. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

70. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

71. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and performance, annual report

72. Financial statements were not submitted for auditing within the prescribed period after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.

73. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and not supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not corrected, and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.

Strategic planning and performance management

74. An annual shareholder's compact was not prepared, as required by treasury regulation 29.2.1.

75. The corporate plan did not include the strategic objectives and outcomes as there was no shareholder's compact agreed on by the executive authority as required by treasury regulation 29.1.1(a).

SOE oversight and governance

76. I was unable to obtain sufficient appropriate audit evidence that minutes of board, audit committee and risk, social and ethics and personnel, remuneration and transformation meetings were properly recorded, as required by section 88(2)(d) of the Companies Act.

Expenditure management

77. 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 45 of the financial statements, the full extent of the irregular expenditure could not be quantified.
78. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer opinion, the amount of fruitless and wasteful expenditure disclosed in note 44 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred. Most of the fruitless and wasteful expenditure disclosed in the financial statements was caused by interest and penalties incurred on late payments, late delivery on orders and non-compliance with statutory requirements.

Revenue management

79. I was unable to obtain sufficient and appropriate audit evidence that effective and appropriate steps were taken to collect all revenue due, as required by section 51(1) (b) (i) of the PFMA.

Procurement and contract management

80. I was unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Consequence management

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

Internal control deficiencies

82. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
83. The matters reported below are limited to the significant internal control deficiencies that resulted in a disclaimer of opinion and the material findings on compliance with legislation included in this report.
84. Due to the financial challenges experienced, the entity did not implement measures to preserve critical skills in the finance function. The entity experienced instability in leadership as a result of a number of resignations in key leadership positions. Instability in leadership has contributed to the continued overall decline in the internal control environment. This affected the credibility of the financial statements prepared, as most the experienced personnel with knowledge of the entity's financial records left the company. This was highlighted by excessive reliance on consultants for the preparation of financial statements with minimal oversight, monitoring and review of the consultants' work at appropriate level of management.
85. Management did not implement adequate daily, weekly and monthly processing and reconciliation controls to ensure that consolidated and separate financial statements were supported by accurate schedules. This resulted in material differences between supporting schedules submitted to support the figures on the consolidated financial statements.

86. The public entity lacked a proper record-keeping system to ensure that information is readily available when requested for audit purposes. This led to significant limitation of scope findings being raised by the auditors.
87. Denel did not have proper processes for consolidation of divisions, subsidiary and associates financial information as a result of manual processes, which led to material misstatement being identified both on a high-level review of financial statements and detailed testing. The challenges continued up to preparation of adjusted consolidated financial statements where auditors identified more errors. Multiple financial statements line items were materially misstated and management relied heavily on the auditor's findings to be able to make the correct adjustments on the financial statements.
88. Management did not implement sufficient and effective internal controls in order to ensure that the annual financial statements are prepared in compliance with the applicable laws and regulations. Effective and appropriate measures were not implemented to prevent and detect material errors in the submitted annual financial statements as well as to prevent and detect non-compliance with legislation.
89. There was a lack of adequate and regular review of existing policies and failure to ensure the completeness of policies to address critical changes in laws, accounting standards and regulations, which affected implementation and compliance throughout the group.
90. No adequate reviews were implemented at financial statement preparation level to ensure that information submitted for input into the financial statements is accurate, valid and complete; and also to ensure that the amounts disclosed in the financial statements are supported by adequate supporting schedules/information.
91. Denel's IT policies were inadequately designed and outdated, which led to the inadequacy and insecure configuration of systems, patches and antivirus programs not being effectively managed, misalignment between implemented processes and those defined in policies for user access management, data backup processes as well as firewalls not being adequately managed.
92. The group did not maintain complete governance records, including minutes of meetings of the board, its sub-committees and the executive committee implemented. This has had a negative impact across the audit, as resolutions of other decisions taken could not be confirmed.
93. The effective functioning of the internal audit has been hampered by a lack of credible information to fulfil their oversight role in respect of comprehensive and appropriate assessment of the internal controls around financial and performance reporting which led to stagnation of the audit outcomes.

Other reports

94. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the group'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.
95. Ongoing investigations conducted by the Special Investigating Unit in terms of Presidential Proclamation R.32 of 2019 as amended by R57 of 2019. In terms of these proclamations, the Special Investigating Unit (SIU) was directed to investigate:
- The procurement and contracting for IT security services, services to develop a white paper relating to the validity of advance payments guarantees on all contracts entered into by Denel and the armaments corporation of South Africa SOC Ltd, legal services or steel fabrication services and steel fabricated goods, and any related losses or irregular or fruitless and wasteful expenditure incurred by Denel or the State as a result thereof.
 - The awarding of bursaries by Denel contrary to applicable policies, procedures, prescripts, practices of, or applicable to Denel that regulate the awarding of such bursaries and related losses or irregular or fruitless and wasteful expenditure incurred by Denel or the state as a result thereof.

- Unlawful, irregular or unapproved measures or practices in relation to the misappropriation of property and intellectual property rights in Denel's Air-to-Air missiles, stand-off weapons, surface target missiles, air defence and Unmanned Ariel Vehicle systems.
- Any unlawful or irregular conduct by employees and officials of Denel or any other person or entity in relation to the allegations set out above.

96. As at the date of this report, these investigations are still ongoing.

Auditor General

Pretoria

29 July 2024



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

STATEMENT OF FINANCIAL POSITION
 AS AT 31 MARCH 2021

FIGURES IN RAND MILLION	NOTES	GROUP			COMPANY		
		2021	2020	2019	2021	2020	2019
Assets							
Non-Current Assets							
Property, plant and equipment	4	714	852	938	584	650	722
Right-of-use assets	5	295	352	-	295	315	-
Investment property	6	863	859	832	863	859	832
Intangible assets	8	66	46	55	36	42	50
Investments in subsidiaries	9	-	-	-	8	8	366
Investment in associated companies	10	1 098	1 279	1 299	371	394	394
Deferred tax	15	197	154	82	-	-	-
Advance payments made	16	-	17	17	-	17	17
		3 233	3 559	3 223	2 157	2 285	2 381
Current Assets							
Inventories	17	1 722	2 090	2 474	1 610	1 924	2 220
Loans receivable		-	2	239	-	-	-
Trade and other receivables	11	649	742	833	615	665	697
Contract assets	12	907	668	850	896	620	528
Other financial assets	13	-	188	113	-	188	113
Advance payments made	16	273	374	382	280	335	352
Current tax receivable		11	7	7	-	-	-
Retirement benefit asset	14	1	1	1	1	1	1
Cash and cash equivalents	18	554	635	580	505	570	468
		4 117	4 707	5 479	3 907	4 303	4 379
Non-current assets held for sale and assets of disposal groups	26	190	178	56	56	56	56
Total Assets		7 540	8 444	8 758	6 120	6 644	6 816
Equity and Liabilities							
Equity							
Share capital	19	8 552	7 976	6 184	8 552	7 976	6 176
Reserves		141	30	30	29	30	30
Accumulated loss		(11 333)	(10 435)	(8 675)	(12 223)	(11 087)	(9 284)
		(2 640)	(2 429)	(2 461)	(3 642)	(3 081)	(3 078)

STATEMENT OF FINANCIAL POSITION
 AS AT 31 MARCH 2021

FIGURES IN RAND MILLION	NOTES	GROUP			COMPANY		
		2021	2020	2019	2021	2020	2019
Liabilities							
Non-Current Liabilities							
Loans and borrowings	20	290	414	425	290	420	421
Lease liabilities	5	-	315	-	-	315	-
Contract liabilities	21	43	80	51	43	80	51
Advanced payments received	22	2 071	1 962	2 170	2 071	1 945	2 144
Deferred tax	15	2	2	2	2	2	2
Provisions	23	393	407	621	312	302	253
		2 799	3 180	3 269	2 718	3 064	2 871
Current Liabilities							
Trade and other payables	25	1 774	1 475	1 909	1 561	1 215	1 553
Loans and borrowings	20	3 075	3 386	3 151	3 075	3 054	3 102
Other financial assets	13	-	97	34	-	97	34
Lease liabilities	5	341	46	-	341	-	-
Contract liabilities	21	1 420	1 284	1 223	1 386	1 242	1 175
Current tax payable		-	3	-	-	3	-
Provisions	23	167	411	586	161	159	191
Advance payments received	24	587	991	1 037	503	891	958
Bank overdraft	18	17	-	10	17	-	10
		7 381	7 693	7 950	7 044	6 661	7 023
Total Liabilities		10 180	10 873	11 219	9 762	9 725	9 894
Total Equity and Liabilities		7 540	8 444	8 758	6 120	6 644	6 816

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FIGURES IN RAND MILLION	NOTES	GROUP			COMPANY		
		2021	2020	2019	2021	2020	2019
Revenue	27	2 315	2 810	3 360	2 156	2 610	3 145
Cost of sales	28	(1 849)	(2 194)	(3 926)	(1 967)	(2 264)	(3 377)
Gross profit (loss)		466	616	(566)	189	346	(232)
Other operating income	29	1 468	300	439	555	289	228
Other operating gains (losses)	30	(497)	(214)	(228)	(410)	(29)	(171)
Operating expenses		(1 358)	(2 052)	(2 761)	(907)	(1 495)	(1 755)
Operating profit (loss)		79	(1 350)	(3 116)	(573)	(889)	(1 930)
Investment income	31	27	189	233	26	157	190
Finance costs	32	(500)	(773)	(848)	(482)	(695)	(750)
Share of profit/(loss) in associated companies		(82)	62	425	-	62	425
Loss before taxation		(476)	(1 872)	(3 306)	(1 029)	(1 365)	(2 065)
Taxation	33	48	67	68	(1)	-	(1)
Loss for the year		(428)	(1 805)	(3 238)	(1 030)	(1 365)	(2 066)
Other comprehensive income:							
Items that will not be reclassified to profit or loss:							
Share of OCI in associated companies_cash flow hedge		47	65	-	-	-	-
Other comprehensive income for the year net of taxation		47	65	-	-	-	-
Total comprehensive loss for the year		(381)	(1 740)	(3 238)	(1 030)	(1 365)	(2 066)

STATEMENT OF CHANGES IN EQUITY

FIGURES IN RAND MILLION	SHARE CAPITAL	SHARE PREMIUM	TOTAL SHARE CAPITAL	REVALUATION RESERVE	OTHER NDR	TOTAL RESERVES	ACCUMULATED LOSS	TOTAL EQUITY
Group								
Balance at 01 April 2019	1 225	4 951	6 176	30	-	30	(8 675)	(2 469)
Loss for the year	-	-	-	-	-	-	(1 805)	(1 805)
Total comprehensive Loss for the year	-	-	-	-	-	-	(1 805)	(1 805)
Additions	-	1 800	1 800	-	-	-	-	1 800
Dividends	-	-	-	-	-	-	(42)	(42)
Total contributions by and distributions to owners of company recognised directly in equity	-	1 800	1 800	-	-	-	(42)	1 758
Balance at 01 April 2020	1 225	6 751	7 976	30	-	30	(10 955)	(2 949)
Prior year adjustment	-	-	-	-	65	65	-	65
Loss for the year	-	-	-	-	-	-	(428)	(428)
Other comprehensive income	-	-	-	(1)	-	(1)	-	(1)
Total comprehensive income for the year	-	-	-	(1)	65	64	(428)	(364)
Issue of shares	-	576	576	-	-	-	-	-
Movements	-	-	-	-	47	47	-	47
Dividends	-	-	-	-	-	-	(4)	(4)
Total contributions by and distributions to owners of company recognised directly in equity	-	576	576	-	47	47	(4)	619
Balance at 31 March 2021	1 225	7 327	8 552	29	112	141	(11 333)	(2 640)
Notes	19	19	19					

STATEMENT OF CHANGES IN EQUITY

FIGURES IN RAND MILLION	SHARE CAPITAL	SHARE PREMIUM	TOTAL SHARE CAPITAL	REVALUATION RESERVE	OTHER NDR	TOTAL RESERVES	ACCUMULATED LOSS	TOTAL EQUITY
Company								
Balance at 01 April 2019	1 225	4 951	6 176	30	-	30	(9 284)	(3 078)
Loss for the year	-	-	-	-	-	-	(1 365)	(1 365)
Total comprehensive Loss for the year	-	-	-	-	-	-	(1 365)	(1 365)
Additions	-	1 800	1 800	-	-	-	-	1 800
Total contributions by and distributions to owners of company recognised directly in equity	-	1 800	1 800	-	-	-	-	1 800
Balance at 01 April 2020	1 225	6 751	7 976	30	-	30	(11 193)	(3 187)
Loss for the year	-	-	-	-	-	-	(1 030)	(1 030)
Other comprehensive income	-	-	-	(1)	-	(1)	-	(1)
Total comprehensive Loss for the year	-	-	-	(1)	-	(1)	(1 030)	(1 031)
Additions	-	576	576	-	-	-	-	576
Total contributions by and distributions to owners of company recognised directly in equity	-	576	576	-	-	-	-	576
Balance at 31 March 2021	1 225	7 327	8 552	29	-	29	(12 223)	(3 642)

STATEMENT OF CASH FLOWS

FIGURES IN RAND MILLION	NOTES	GROUP			COMPANY		
		2021	2020	2019	2021	2020	2019
Cash flows from operating activities							
Cash used in operations	34	352	(1 585)	2 004	130	(1 040)	698
Tax (paid) received	35	(2)	(3)	5	(4)	3	2
Net cash from operating activities		(123)	(2 361)	1 161	(330)	(1 732)	(50)
Cash flows from investing activities							
Purchase of property, plant and equipment	4	(69)	(6)	(22)	(1)	(6)	(89)
Sale of property, plant and equipment	4	-	6	2	53	6	-
Purchase of other intangible assets	8	(29)	-	(5)	-	-	(7)
Receipts from loans receivable at amortised cost		-	237	163	-	-	(6)
Purchase of loans receivables		-	-	(500)	-	-	-
Sale of loans receivables		-	27	-	1	-	-
Movement of post retirement medical asset		-	-	1	-	-	1
Net cash from investing activities		(98)	264	(361)	53	-	(101)
Cash flows from financing activities							
Proceeds on share issue	19	576	1 792	-	576	1 800	-
Reduction of share capital or buy back of shares	19	-	-	(1 714)	-	-	-
Repayment of borrowings		(149)	224	23	(109)	(49)	(102)
Movement in loans payable internal		-	-	(18)	-	-	-
Movement in other loans payable external		-	(46)	(931)	-	(67)	(921)
Overdraft		17	1	-	17	-	-
Payment on lease liabilities		(26)	-	-	(26)	-	-
Advance payments		(295)	-	-	(263)	-	-
Interest income		-	189	233	-	157	190
Net cash from financing activities		123	2 159	(2 407)	195	1 841	(833)
Total cash movement for the year		(98)	62	(1 607)	(82)	109	(984)
Cash at the beginning of the year		635	570	1 279	570	458	1 090
Total cash at end of the year	18	537	632	(328)	488	567	106

STATEMENT OF CASH FLOWS

CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in South Africa. The consolidated and separate annual financial statements are presented in South African Rand (ZAR), rounded off to the nearest million (Rm), unless stated otherwise. The consolidated annual financial statements for the year ended 31 March 2021 comprise the company, its subsidiaries and associated companies.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated annual financial statements have been prepared in accordance with International Reporting Framework Standards (IFRS), the Companies Act of South Africa 2008 and the Public Finance Management Act (PFMA). The principal accounting policies adopted in the preparation of the consolidated annual financial statements are set out below.

1.1 Basis of preparation

The consolidated and separate annual financial statements are prepared on the historic cost basis, with the exception of derivative financial instruments, financial instruments are recognised at fair value through profit and loss, and investment properties are measured at fair value. The consolidated and separate annual financial statements have been prepared based on IFRS framework (International Financial Reporting Standards).

1.2 Consolidation

Basis of consolidation

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

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

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

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

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

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

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Investments in subsidiaries and associated companies

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

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

Separate financial statements

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

Transactions eliminated on consolidation

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

1.3 Significant judgements and sources of estimation uncertainty

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

The preparation of the consolidated annual financial statements, in conformity with IFRS, requires management to exercise its judgment, as well as make certain critical accounting estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have a significant effect on the consolidated annual financial statements and estimates with a significant risk of material adjustment in the following financial year are discussed in Note 1.2 and 1.4

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

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1.4 Judgements and estimates

Control or joint control

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

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

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

Deferred tax asset

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

Revenue, contract risks and onerous contracts

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

Useful lives and impairment of property, plant and equipment

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

Product warranties

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

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Site restoration

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

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

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

The amount raised as a provision was based on the detailed study performed, taking into account the expected timing of decontamination, ranging between three and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 3.3% (2019/20: 4.1% , 2018/19: 5.5%) have been discounted at an interest rate of 11.30% (2019/20: 11.30% , 2018/19: 11.30%), 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 37 of the consolidated annual financial statements. Certain obligations have been transferred to participating parties by means of back-to-back agreements.

Estimates used in calculating these obligations are as follows:

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

Post-employment benefit obligations

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

Impairment testing of goodwill

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

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1.5 Summary of significant accounting policies

1.5.1 Revenue recognition

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

The main principles of revenue recognition are based in terms of a five-step model:

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

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

Contract revenue

Performance obligations

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

Transaction price

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

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

Revenue and profit recognition

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

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

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

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

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

Income from investment properties

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

1.5.2 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 23.

1.5.3 Taxes

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

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Deferred tax does not provide for the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit and loss nor taxable profit and loss. Deferred tax is recognised in full on temporary differences arising from investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred tax liability is recognised to the extent that the carrying value of an asset is greater than its tax base, or where the carrying value of a liability is less than its tax base. A net deferred tax asset is regarded as recoverable and therefore only recognised when, on the basis of all available evidence, it is probable that future taxable profit will be available against which the temporary differences (including -carried forward tax losses) can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

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

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

1.5.4 Financial instruments

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

Financial assets

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

The group has the following classes:

Loans receivables

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

Trade and other receivables

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

Prepayments made

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

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Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

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

Financial liabilities

Subsequently, the group classifies financial liabilities as measured at amortised cost or fair value through profit or loss. A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Loans and borrowings

After initial recognition, interest-bearing borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated after having taken into account any issue costs, discounts and premium on settlement. Interest-bearing borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

Trade and other payables

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

Derivative financial instruments

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

Subsequent to initial recognition, derivative financial instruments are stated at fair value through profit and loss. Any gains or losses on the measurement of the derivative financial instruments are recognised in profit and loss. The fair value of derivative financial instruments is determined by reference to the quoted market price for assets held or liabilities to be settled at the reporting date.

De-recognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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1.5.5 Foreign currencies

Functional and presentation currency

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

Recording of foreign transactions

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

Translation of foreign currency transactions

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

1.5.6 Investment properties

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

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

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

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

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

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

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1.5.7 Property, plant and equipment

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

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

Depreciation

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

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

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

Subsequent expenditure

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

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

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

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

Spare parts

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

1.5.8 Leases

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

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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.

1.5.9 Intangible assets

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

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

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

Research and development costs

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

The amortisation of capitalised development costs commences once the product or service becomes available for sale or use. Capitalised development costs are amortised over the period of expected future economic benefits associated with the specific asset.

Patents

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

Computer software

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

Business combinations and goodwill

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

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

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

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

1.5.10 Impairment

Financial assets

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

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

Non-financial assets

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

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

Reversals of impairments

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.

ACCOUNTING POLICIES

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.

1.5.11 Inventories

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

Work-in-progress and finished products

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

Consumable inventories

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

1.5.12 Advance payments received from revenue contracts

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

1.5.13 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 to Note 14).

ACCOUNTING POLICIES

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.

1.5.14 Countertrade obligations

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

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

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

1.5.15 Segment reporting

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

1.5.16 Hedge accounting

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

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

1.5.17 Non-current asset held for sale

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

1.6 Fruitless, wasteful and irregular expenditure

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

ACCOUNTING POLICIES

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

1.7 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the group in which they are declared.

1.8 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales. Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

Cost of sales is reduced by the amount recognised in inventory as a "right to returned goods asset" which represents the group right to recover products from customers where customers exercise their right of return under the group returns policy.

ACCOUNTING POLICIES

2. CHANGES IN ACCOUNTING POLICY

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year.

The aggregate effect of the changes in accounting policy on the consolidated and separate annual financial statements for the year ended 31 March 2020 is as follows:

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

The entity has not applied the new [name the standard or interpretation] issued, and effective for periods commencing. (Describe the new required treatment and the current treatment.) The estimated impact of the implementation of the new standard on the 2020/21 consolidated and separate annual financial statements is as follows:

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective and adopted in the current year

The following standards and interpretations have been published and are mandatory for the group's accounting periods from the current financial year

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> Covid-19-Related Rent Concessions beyond 30 June 2021: Amendment to IFRS 16 Leases. <p>The amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment did not affect lessors.</p>	01 April 2021	The impact of the standard is not material.
<ul style="list-style-type: none"> Presentation of Financial Statements: Disclosure initiative 	01 January 2020	The impact of the amendment is not material.
<ul style="list-style-type: none"> Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative 	01 January 2020	The impact of the amendment is not material.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

3.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12. In May 2021 the International Accounting Standards Board (IASB) issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. 	01 January 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"> Definition of accounting estimates: Amendments to IAS 8. In February 2021, the IASB issued Definition of Accounting Estimates, which amended IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. 	01 January 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"> Classification of Liabilities as Current or Non-Current - Amendment to IAS 1. In January 2020 the International Accounting Standards Board issued amendments to IAS 1 Presentation of Financial Statements that clarify its requirements for the presentation of liabilities in the statement of financial position. 	01 January 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"> Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments provide guidance and to help entities apply materiality judgements to accounting policy disclosures, and distinguish changes in accounting estimates from changes in accounting policies. 	01 January 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"> COVID-19 - Related Rent Concessions - Amendment to IFRS 16. 	01 January 2023	Unlikely there will be a material impact

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

GROUP	2021			2020			2019		
	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE
Land	56	-	56	56	-	56	56	-	56
Buildings	472	(258)	214	577	(281)	296	593	(293)	300
Plant and machinery	1 457	(1 089)	368	1 487	(1 145)	342	1 893	(1 432)	461
Motor vehicles	101	(66)	35	103	(69)	34	109	(65)	44
Office equipment	28	(23)	5	48	(39)	9	49	(38)	11
IT equipment	141	(114)	27	221	(189)	32	261	(216)	45
Capital - Work in progress	9	-	9	8	6	14	17	4	21
Total	2 264	(1 550)	714	2 500	(1 717)	783	2 978	(2 040)	938

COMPANY	2021			2020			2019		
	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE
Land	56	-	56	56	-	56	56	-	56
Buildings	472	(258)	214	479	(256)	223	480	(255)	225
Plant and machinery	1 327	(1 089)	238	1 293	(1 007)	286	1 304	(979)	325
Motor vehicles	101	(66)	35	103	(63)	40	109	(59)	50
Office equipment	28	(23)	5	29	(21)	8	29	(20)	9
IT equipment	141	(114)	27	142	(113)	29	180	(140)	40
Capital - Work in progress	9	-	9	8	-	8	17	-	17
Total	2 134	(1 550)	584	2 110	(1 460)	650	2 175	(1 453)	722

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - GROUP - 2021							
	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS	DEPRECIATION	IMPAIRMENT LOSS	TOTAL
Land	56	-	-	-	-	-	56
Buildings	296	-	(76)	-	(6)	-	214
Plant and machinery	342	75	-	-	(12)	(37)	368
Motor vehicles	34	6	-	-	(4)	(1)	35
Office equipment	9	-	-	-	(1)	(3)	5
IT equipment	32	6	-	-	(11)	-	27
Capital - Work in progress	14	-	-	(5)	-	-	9
	783	87	(76)	(5)	(34)	(41)	714

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - GROUP - 2020								
	OPENING BALANCE	ADDITIONS	RECLASSIFICATIONS	DISPOSALS	CLASSIFIED AS HELD FOR SALE	WRITE OFF	DEPRECIATION	TOTAL
Land	52	-	-	-	-	-	-	52
Buildings	410	-	-	-	-	2	(6)	406
Plant and machinery	448	3	-	(6)	(33)	1	(84)	329
Motor vehicles	2	-	(2)	(1)	-	-	(9)	(9)
Office equipment	8	-	-	-	-	-	(2)	5
IT equipment	18	-	1	-	-	1	(13)	6
Capital - Work in progress	1	4	-	-	-	-	(8)	(4)
	939	7	(1)	(7)	(33)	4	(122)	785

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - GROUP - 2019								
	OPENING BALANCE	ADDITIONS	RECLASSIFICATIONS	DISPOSALS	TRANSFERS	WRITE OFF	DEPRECIATION	TOTAL
Land	52	-	-	-	-	-	-	52
Buildings	412	8	13	(2)	-	(4)	(16)	410
Plant and machinery	501	11	(13)	-	3	7	(61)	448
Motor vehicles	11	-	-	-	-	(1)	(8)	2
Office equipment	6	-	-	-	-	-	1	8
IT equipment	16	-	(6)	-	-	(1)	8	18
Capital - Work in progress	(5)	3	6	-	-	-	(3)	1
	993	22	-	(2)	3	1	(79)	938

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - COMPANY - 2021							
	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS	DEPRECIATION	IMPAIRMENT LOSS	TOTAL
Land	56	-	-	-	-	-	56
Buildings	223	-	(1)	-	(8)	-	214
Plant and machinery	286	-	(6)	4	(5)	(41)	238
Motor vehicles	40	-	-	(5)	-	-	35
Office equipment	8	-	-	(3)	-	-	5
IT equipment	29	-	(2)	-	-	-	27
Capital - Work in progress	8	1	-	-	-	-	9
	650	1	(9)	(4)	(13)	(41)	584

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - COMPANY - 2020						
	OPENING BALANCE	ADDITIONS	DISPOSALS	WRITE OFF	DEPRECIATION	TOTAL
Land	56	-	-	-	-	56
Buildings	213	2	-	-	(3)	212
Plant and machinery	331	3	(6)	1	(39)	291
Motor vehicles	49	-	(1)	-	(9)	40
Office equipment	9	-	-	-	(2)	7
IT equipment	46	-	-	1	(11)	35
Capital - Work in progress	19	1	-	(8)	-	12
	723	6	(7)	(6)	(64)	653

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - COMPANY - 2019						
	OPENING BALANCE	ADDITIONS	WRITE OFF	DEPRECIATION	TOTAL	
Land	56	-	-	-	56	
Buildings	219	8	(4)	(10)	213	
Plant and machinery	267	67	(3)	-	331	
Motor vehicles	58	-	(1)	(8)	49	
Office equipment	7	2	-	-	9	
IT equipment	37	9	(1)	-	46	
Capital - Work in progress	16	3	-	-	19	
	660	89	(9)	(18)	723	

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

5. LEASES (DENEL SOC LIMITED AS LESSEE)

The Denel SOC Limited has no option to purchase the buildings at a nominal amount on completion of the lease term.

Details pertaining to leasing arrangements, where the group is lessee are presented below:

Denel SOC Limited entered into a lease agreement with ACSA (Airports Company of South Africa) and CSIR (Council for Scientific and Industrial Research) to lease buildings for a period of 7 years and 10 years respectively.

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are included in the following line items:

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Buildings	295	350	-	295	313	-
Office equipment	-	2	-	-	2	-
	295	352	-	295	315	-

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss, as well as depreciation which has been capitalised to the cost of other assets.

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Buildings	34	8	-	34	8	-

Other disclosures

Interest expense on lease liabilities	7	4	1	-	-	-
Expenses on short-term leases included in operating expenses	2	2	1	-	-	-
Expenses on short-term leases included in cost of merchandise sold and inventories	54	60	64	49	50	50
Leases of low value assets included in operating expenses	1	1	2	1	1	2
Variable lease payments not included in the measurement of lease liabilities included in operating expenses	4	10	22	4	10	22
Variable lease payments included in cost of merchandise sold and inventories	-	2	6	-	2	6

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

5. LEASES (DENEL SOC LIMITED AS LESSEE) (continued)

Lease liabilities

Lease liabilities have been included in the borrowings line item on the statement of financial position. Refer to note 20 Borrowings.

The maturity analysis of lease liabilities is as follows:

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Non-current liabilities	-	315	-	-	315	-
Current liabilities	341	46	-	341	-	-
	341	361	-	341	315	-

6. INVESTMENT PROPERTY

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Fair value at 1 April	859	832	784	859	832	784
Additions	-	-	4	-	-	4
Fair value adjustment	4	27	44	4	27	44
Fair value at 31 March	863	859	832	863	859	832

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 1.5.6.

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.	<ul style="list-style-type: none"> 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%). 	<p>The estimated fair value would increase/decrease if:</p> <ul style="list-style-type: none"> 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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

7. GOODWILL

GROUP	2021			2020			2019		
	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Goodwill	241	(241)	-	10	(10)	-	10	(10)	-

RECONCILIATION OF GOODWILL - GROUP		GOODWILL
Cost		
At 01 April 2018		10
At 31 March 2019		10
Cost		
At 01 April 2019		10
At 31 March 2020		10
Impairment of goodwill		231
At 31 March 2021		241
Depreciation and impairment		
At 01 April 2018		(3)
Classified as held for sale		-
Transfers		-
Impairment loss in income		(7)
Foreign exchange movements		-
At 31 March 2019		(10)
Depreciation and impairment		
At 01 April 2019		(10)
Classified as held for sale		-
At 31 March 2020		(10)
Classified as held for sale		-
Transfers		-
Impairment loss in income		10
		-
Impairment		(241)
At 31 March 2021		(241)
Carrying amount		
Cost		10
Accumulated depreciation and impairment		(10)
At 31 March 2019		-
Cost		10
Accumulated depreciation and impairment		(10)
At 31 March 2020		-
Cost		241
Accumulated depreciation and impairment		(241)
At 31 March 2021		-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

GROUP	2021			2020			2019		
	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Computer software	179	(138)	41	191	(170)	21	191	(162)	29
Development costs	203	(186)	17	203	(186)	17	203	(185)	18
Other intangible assets	8	-	8	34	(26)	8	34	(26)	8
Total	390	(324)	66	428	(382)	46	428	(373)	55

COMPANY	2021			2020			2019		
	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Computer software	149	(138)	11	151	(134)	17	151	(126)	25
Development costs	203	(186)	17	203	(186)	16	195	(185)	10
Other intangible assets	8	-	8	8	-	8	15	-	15
Total	360	(324)	36	362	(320)	42	361	(311)	50

RECONCILIATION OF INTANGIBLE ASSETS - GROUP - 2021

	OPENING BALANCE	ADDITIONS	AMORTISATION	TOTAL
Computer software	21	29	(9)	41
Development Costs	17	-	-	17
Other intangible assets	8	-	-	8
	46	29	(9)	66

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS (continued)

RECONCILIATION OF INTANGIBLE ASSETS - GROUP - 2020			
	OPENING BALANCE	AMORTISATION	TOTAL
Computer software	29	(8)	21
Development Costs	18	(1)	17
Other intangible assets	8	-	8
	55	(9)	46

RECONCILIATION OF INTANGIBLE ASSETS - GROUP - 2019			
	OPENING BALANCE	ADDITIONS	TOTAL
Computer software	25	4	29
Development Costs	17	1	18
Other intangible assets	8	-	8
	50	5	55

RECONCILIATION OF INTANGIBLE ASSETS - COMPANY - 2021			
	OPENING BALANCE	AMORTISATION	TOTAL
Computer software	18	(7)	11
Development Costs	17	-	17
Other intangible assets	8	-	8
	43	(7)	36

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS (continued)

RECONCILIATION OF INTANGIBLE ASSETS - COMPANY - 2020			
	OPENING BALANCE	AMORTISATION	TOTAL
Computer software	25	(7)	18
Development Costs	18	(1)	17
Other intangible assets	8	-	8
	51	(8)	43

RECONCILIATION OF INTANGIBLE ASSETS - COMPANY - 2019			
	OPENING BALANCE	ADDITIONS	TOTAL
Computer software	19	6	25
Development Costs	17	1	18
Other intangible assets	8	-	8
	44	7	51

Details of valuation

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

- Discount rate: 15.89%
- Terminal value growth rate: 5.5%

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES

Unlisted shares	835	2 525	2 525
Accumulated impairment	(827)	(2 517)	(2 159)
	8	8	366

Subsidiary companies

NAME OF COMPANY	HELD BY	EFFECTIVE SHAREHOLDING 2021	EFFECTIVE SHAREHOLDING 2020	EFFECTIVE SHAREHOLDING 2019	SHARE INVESTMENT BY DENEL SOC LTD 2021	SHARE INVESTMENT BY DENEL SOC LTD 2020	SHARE INVESTMENT BY DENEL SOC LTD 2019
Denel Aerostructures SOC Ltd	Denel SOC	-%	100,00%	100,00%	-	1689	1689
Densecure SOC Ltd	Denel SOC	100,00%	100,00%	100,00%	8	8	8
Denel Vehicles Systems (Pty) Ltd	Denel SOC	100,00%	100,00%	100,00%	827	827	827
					835	2525	2524
Impairment of investment in subs		100,00%	100,00%	100,00%	(827)	(2517)	(2158)
					8	8	366

LMT

On 2 September 2019, the Board of LMT Products (Pty) Ltd (the company) a subsidiary of LMT Holdings (Pty) Ltd, adopted a resolution in accordance with section 129 of the Companies Act 71 of 2008 (as amended), in terms of which the company voluntarily commenced business rescue proceedings. The company appointed Siphon Eric Sono to be its business rescue practitioner on 4 September 2019. Denel is the majority shareholder of LMT Holdings (Pty) Ltd. However, the underlying business of this entity is with the company. As such, upon the voluntary business rescue proceedings, LMT Holdings no longer has control of this entity. Denel continued to have majority ownership of LMT Holdings. On 06 June 2021, the Board of LMT passes a resolution in terms of approval for the application of section 54 application relating to the disposal of LMT Products shares held by LMT Holdings as LMT Products had been placed under business rescue. LMT Holdings was officially placed under voluntary liquidation on 30 November 2021. Whilst management assessed that during the year ended 31 March 2021, Denel still maintained control over the entity, however the impact of this business was not material to the group therefore was not consolidated to Denel's group numbers.

DAE

On the 31 March 2021 the Gauteng High Court received and application from Honda Aircraft Company LLC for the purpose of liquidation Denel Aerostructures. On 7 April 2021. A Sheriff served Aerostructures with a notice of motion to place Aerostructures under final winding up in the hands of the Master of the High Court of South Africa. On the 28 July 2021 Master of The High Court placed Denel Aerostructures under provisional winding-up. According to section 384 of the Companies Act, 61 of 1973, once a final order of liquidation is granted, the date of liquidation of the entity for the purpose of winding-up will be deemed to be the date on which the liquidation application was issued by the High Court of South Africa. Accordingly, the liquidation application was issued 31 March 2021, and it follows that the deemed date of liquidation of the entity for the purpose of winding-up is therefore 31 March 2021 hence 100% control is lost as 31 March 2021.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES (continued)

PROFIT OR LOSS	
Revenue	17
Cost of sales	(234)
Gross profit	(218)
Operating expenditure	(230)
Other income	15
Operating profit/loss	(432)
Finance cost	(7)
Profit before tax	(439)
Net profit after tax	(439)

TMA

Up until 31 August 2017 Denel held 49% of TMA and accounted for investment in accordance with IAS 28. On 01 September 2017 Denel purchased 51% of TMA from SAFRAN and Denel exercised control of this entity. However, on the 02 September 2017, the board resolved to distribute its assets and liabilities to Denel Aeronautics, a division of Denel Soc Ltd. Subsequently, on 28 January 2024 was placed deregistered. Whilst management assessed that during the year ended 31 March 2021, Denel still maintained control over the entity, however the impact of this business was not material to the group therefore was not consolidated to Denel's group numbers.

DVS

At acquisition of Denel Vehicle Systems (Pty) Ltd, Denel recognised goodwill of R242 m. In 2017/18, the recoverable R 417m 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 R 44m was recognised. The impairment was allocated with R33m against the remaining goodwill.

The investment in subsidiary was impaired by R 208m in 2018/19 and subsequently impaired in full in 2020. The assumptions used in the estimation of value in use were as follows:

- Discount rate: 15.65% (2020: 15.65%, 2019: 15.89%)
- Terminal value growth rate: 5.5% (2020: 5.5%, 2019: 5.5%)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES**10.1 Establishment of associated companies**

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

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

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

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.

ASSOCIATED COMPANY	EQUITY PARTNER	DENEL SOC LTD		EQUITY PARTNERS	
		SHAREHOLDING %	NUMBER OF BOARD MEMBERS	SHAREHOLDING %	NUMBER OF BOARD MEMBERS
Rheinmetall Denel Munition (Pty) Ltd	Rheinmetall Waffe Munition GmbH 1	49	2	51	3
Pioneer Land Systems LLC	International Golden Group PJSC 2	49	2	51	3
Barij Dynamics	Tawazun Holding	49	2	51	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.

10.2 Net investment in associated companies

The share of loss after tax from associated companies for the year-end 31 March 2021 is R 82m. In the current year the Barij Dynamics investment was impaired by R109m.

Cost of investments in associated companies

Unlisted shares	371	394	394	371	394	394
Net share of results in associated companies	727	925	905	-	-	-
Share of current year profit before tax	(107)	2	452	-	-	-
Share of current year tax	25	63	(27)	-	-	-
Share of current year profit after tax	(82)	65	425	-	-	-
Dividends paid	(39)	(85)	(85)	-	-	-
Impairment	-	(40)	-	-	-	-
Transferred to non current assets - Hendsoldt	(12)	(25)	(5)	-	-	-
Share of other comprehensive income - fair value hedge	47	65	-	-	-	-
Impairment	(112)	-	-	-	-	-
Accumulated profit at 1 April	925	905	570	-	-	-
Net investments in associated companies	1 098	1 279	1 299	371	394	394

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

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

Cost of investments in associated companies

Rheinmetall Denel Munition (Pty) Ltd	935	905	951	371	371	371
Barij Dynamics LLC (Previously Tawauzun Dynamics)	167	374	348	-	23	23
Net investments in associated companies	1 102	1 279	1 299	371	394	394

Management have observed the investments in association for any indicator of impairment on the assets and identified that investment in Barij Dynamics had a significant decrease in revenue which resulted in large amount of loss in the current and previous years and other indicators. An assessment was thereafter performed, and management determined the recoverable amount using the net present value method discounting the cashflows for the next 5-year period at 11.5% rate. Management also made the following key assumptions:

- The entity will collect all debts within 90 days
- The creditors will be paid immediately
- The entity will not pay a dividend in the near future.
- 3 months payment to employees including restructuring cost. The above resulted in an impairment amount of R 95 898 114,43.

10.3 Extracts from audited 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:

FIGURES IN RAND MILLION	2021	2020	2019
Total assets	4 515	3 721	3 205
Non-current assets	1 132	1 072	1 018
Current assets	3 383	2 649	2 187
Total liabilities	2 852	2 121	1 517
Non-current liabilities	260	503	484
Current liabilities	2 592	1 618	1 033
Net assets	1 663	1 600	1 688
Group's share of associated company's net assets	815	785	827
Revenue	2 296	1 514	2 734
Group's share of revenue	1 125	742	1 340
Profit before tax	(61)	(228)	287
Group's share of profit before tax	(30)	(112)	140
Profit after tax	(34)	(150)	222
Group's share of profit after tax	(17)	(74)	109

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

Group's share of profit after tax

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:

FIGURES IN RAND MILLION	2021	2020	2019
Total assets	2 930	4 024	3 200
Non-current assets	261	358	296
Current assets	2 669	3 666	2 904
Total liabilities	2 113	2 802	2 562
Non-current liabilities	183	289	241
Current liabilities	1 930	2 513	2 321
Net assets	817	1 222	638
Group's share of associated company's net assets	400	599	313
Revenue	731	2 148	2 633
Group's share of revenue	358	1 053	1 290
Profit before tax	(51)	231	635
Group's share of profit before tax	(25)	113	311
Profit after tax	(51)	231	635
Group's share of profit after tax	(25)	113	311

11. TRADE AND OTHER RECEIVABLES

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Financial instruments:						
Trade receivables	621	623	802	539	546	629
Trade receivables- related parties	-	54	98	42	54	98
Loss allowance	(94)	(141)	(184)	(86)	(136)	(146)
Trade receivables at amortised cost	527	536	716	495	464	581
Deposits	5	10	7	5	10	6
Operating lease receivables	62	54	28	62	54	28
Sundry receivables	55	128	59	53	124	66
Non-financial instruments:						
VAT	-	14	23	-	13	16
Total trade and other receivables	649	742	833	615	665	697
Split between non-current and current portions						
Current assets	649	742	833	615	665	697
Financial instrument and non-financial instrument components of trade and other receivables						
At amortised cost	649	728	810	615	652	681
Non-financial instruments	-	14	23	-	13	16
	649	742	833	615	665	697

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019

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 judgemental 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 macro economic variables to defaults, Denel has used the correlations provided by Moody's Analytics' Impairment calculation, which are based on their study and statistical assessment of a limited number of suitable factors that have provided the highest correlation across the entire South African economy. The expected loss rates are based on the revenue payment profiles over a 60-month period before 1 April 2018. Denel has applied an assumption that a trade receivable has defaulted when it is more than 90 days outstanding from the date invoices are due for payment. As per the IFRS 9 expedient, all trade receivable have a life time expected credit loss. Trade receivables are written off when there is no reasonable expectation of recovery, as evidenced by the ceasing of business by the customers.

In terms of IAS 39, as at 31 March 2018, trade and other receivables to the value of R52.3 m were impaired and provided for. The trade receivables in excess of 30 days fell within the acceptable credit risk limits of the group and mainly consisted of accounts and customers for whom there was no history of non-payment. There were no impairments required on any of the other classes of receivables. Impairment was triggered when specific loss events occurred that would lead to impairment.

Exposure to credit risk

Trade receivables inherently expose the group to credit risk, being the risk that the group will incur financial loss if customers fail to make payments as they fall due.

The group's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
12. CONTRACT ASSETS						
Contract assets	909	669	851	898	620	528
Loss allowance	(2)	(1)	(1)	(2)	-	-
	907	668	850	896	620	528
Reconciliation of contract assets						
Opening balance	668	850	1841	620	528	279
Adjustments	291	92	(936)	286	92	1110
IFRS Change	4	(358)	31	4	-	248
Other	(54)	84	(86)	(12)	-	(1109)
Impairment	(2)	-	-	(2)	-	-
	907	668	850	896	620	528
Split between non-current and current portions						
Current assets	907	668	850	896	620	528
13. OTHER FINANCIAL ASSETS AND LIABILITIES						
Non-hedging derivatives						
Foreign Exchange	-	(54)	(6)	-	(54)	(6)
Assets Forward						
Exchange Contract						
Firm Commitment	-	145	85	-	145	85
FEC						
Split between non-current and current portions						
Current assets	-	188	113	-	188	113
Current liabilities	-	(97)	(34)	-	(97)	(34)
	-	91	79	-	91	79

Refer to note 41 Financial instruments and risk management further details.

14. POST-RETIREMENT OBLIGATIONS

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

14.1. DENEL MEDICAL BENEFIT TRUST

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made in to a separate trustee administrated fund. Denel does not make annual contributions as the trust is fully funded.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 01 April 2021 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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

14. POST-RETIREMENT OBLIGATIONS (CONTINUED)

April 2021 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 pages 49 to 51.

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Change in defined benefit funded obligation						
Present value of funded obligations at 1 April				375	389	410
Service cost benefits earned during the year				-	-	1
Interest cost on projected benefit obligation				34	36	35
Actuarial losses				-	-	(34)
Re-measurement				(4)	(22)	-
Benefits paid				(30)	(28)	(23)
Present value of funded obligations at 31 March				375	375	389
Change in plan assets						
Fair value of plan assets at 1 April				1486	1394	1326
Expected return on plan assets				141	133	121
Re-measurement				48	(13)	(30)
Benefits paid				(30)	(28)	(23)
Fair value of plan assets at 31 March				1645	1486	1394
Fund excess				1270	1111	1005
Excess not recognised				(1269)	(1110)	(1003)
Unrecognised actuarial gains				1	1	2
Net benefit expenses						
Service cost				-	1	1
Interest cost				34	34	35
Expected return on plan assets				(141)	131	121
Net actuarial loss recognised during the year				-	(105)	(105)
Income				(107)	61	52
The principal actuarial assumptions used for accounting purposes were:						
Expected return on plan assets				10,6%	9,6%	9,6%
Expected medical inflation				8,2%	7,1%	7,6%
The beneficiary members from the funds areas follows:				Number	Number	Number
Active members				32	54	63
Retired members				625	637	658

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

14. POST-RETIREMENT OBLIGATIONS (CONTINUED)

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
	2021		2020		2019	
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

8	7	9	8	10	8
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Amounts for the current and previous four years are as follows:

	2021	2020	2019	2018	2017	2016
	R	R	R	R	R	R
Defined benefit obligation	(375)	(374)	(388)	(409)	(503)	(481)
Plan assets	1645	1485	1394	1326	1360	1288
Surplus	1270	1111	1005	917	857	807
Experience adjustments on plan liabilities	-	(9)	(3)	-	15	5

Discount rate

Variation	Health care cost inflation	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
+1%	9,18%	8,4%	-34,1%	8,8%
-1%	7,18%	-7,4%	35,2%	-7,8%

Retirement Age

Variation

Variation	Health care cost inflation	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
65			0,038%	-15%
55			0,076%	-28%

14.1 DENEL RETIREMENT FUND

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
15. DEFERRED TAX						
Deferred tax assets	197	154	82	-	-	-
Deferred tax liability	(2)	(2)	(2)	(2)	(2)	(2)
Total deferred tax	195	152	80	(2)	(2)	(2)

Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been kept separately in the statement of financial position as follows:

Deferred tax liability	(2)	(2)	(2)	(2)	(2)	(2)
Deferred tax asset	197	154	82	-	-	-
Total net deferred tax	195	152	80	(2)	(2)	(2)

16. ADVANCE PAYMENTS MADE

Prepayment relates to amounts partially paid to suppliers in order to render a service.

Non-current prepayments	-	17	17	-	17	17
Current prepayments	273	374	382	280	335	352

17. INVENTORIES

Consumable inventory	920	556	563	845	338	339
Contracts in progress	795	883	1053	660	842	1020
Finished goods	356	1128	1193	342	981	1026
Goods in transit	27	41	47	27	41	48
	2098	2608	2856	1874	2202	2433
Inventories (write-downs)	(376)	(518)	(382)	(264)	(278)	(214)
	1722	2090	2474	1610	1924	2220

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Bank balances	97	121	88	59	91	49
Short-term deposits	348	385	404	337	350	334
Other cash and cash equivalents	109	129	88	109	129	85
Bank overdraft	(17)	-	(10)	(17)	-	(10)
	537	635	570	488	570	458
Current assets	554	635	580	505	570	468
Current liabilities	(17)	-	(10)	(17)	-	(10)
	537	635	570	488	570	458

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
19. SHARE CAPITAL						
Authorised						
1 000 000 000	1000	1000	1000	1000	1000	1000
Class A ordinary shares of R1 each						
232 455 747 Class B ordinary shares of R1 each	232	232	232	232	232	232
	1232	1232	1232	1232	1232	1232
Issued						
Ordinary	1225	1225	1233	1225	1225	1225
Share premium	7327	6751	4951	7327	6751	4951
	8552	7976	6184	8552	7976	6176

In March 2021, the Shareholder issued 5670 at a premium of R575 994 240 (2019/20:1 000 000 000, 2018/19:1 000 000 000) and the number of issued Class B ordinary shares was 225 056 663 (2019/20: 225 056 663, 2018/19: 225 056 663). In August 2019, Denel issued 1 000 Class B ordinary shares to its shareholder at R1 par value and share premium of R1 799 999 999.

The unissued shares are under the control of the South African government, which is the sole shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur. None of the shares have preferential rights.

20. BORROWINGS**Held at amortised cost**

Bank loan	290	412	421	290	420	421
Finance Leases	-	2	4	-	-	-
External IBB Finance Leases	-	-	2	-	-	-
External C IBR and C IBB	3075	3005	3097	3075	2720	3102
Other financial liabilities	-	381	52	-	334	-
	3365	3800	3576	3365	3474	3523

Split between non-current and current portions

Non-current liabilities	290	414	425	290	420	421
Current liabilities	3075	3386	3151	3075	3054	3102
	3365	3800	3576	3365	3474	3523

Unsecured Bonds

Denel registered a R3 bn (2014/15: R2.2 bn) Domestic Medium-Term Note programme with the JSE, which was increased to R4 bn during 2018/19. Under the programme, Denel could raise senior and/or subordinated notes up to the registered amount, and the amount at year-end was R3.2 bn (2019/20: R3.1 bn). The programme contains cross default (indebtedness of outstanding amount equals or exceeds 1% (2019/20: 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 where by all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims that it may have in favour of the note holders. Therefore, in the event that the issuer can not honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2023.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019

20. BORROWINGS (CONTINUED)

Commercial paper

During 2020/21 notes to the value of R3.213bn (2019/20:R3.415bn) were issued as follows:

3 month JIBAR + 250 bps	22 August 2019	20 August 2021	50
3 month JIBAR + 225 bps	11 September 2020	11 September 2021	1463
3 month JIBAR + 220 bps	21 September 2018	21 September 2021	30
3 month JIBAR + 225 bps	23 September 2020	23 September 2021	155
3 month JIBAR + 220 bps	28 September 2018	28 September 2021	50
3 month JIBAR + 225 bps	11 December 2020	10 December 2021	885
3 month JIBAR + 225 bps	11 December 2020	10 December 2021	290
3 month JIBAR + 275 bps	27 September 2019	27 September 2022	150
3 month JIBAR + 300 bps	31 January 2020	31 January 2023	40
3 month JIBAR + 280 bps	28 September 2018	28 September 2023	100
			3213

Weighted average effective interest rates

Local unsecured loans (fixed rate)	6,3%	8,8%	8,8%	6,3%	8,8%	8,8%
Current bank borrowings (floating rate)	8,3%	9,9%	8,9%	8,3%	9,9%	8,9%

Summary of maturity of borrowings Maturing:

Within three months	-	-	269	-	-	215
Between three and twelve months	3077	2995	3035	3079	2995	3033
Between one and two years	190	130	-	190	130	-
Between two and three years	100	150	84	100	150	80
Between three and five years	-	140	100	-	140	100
More than five years	-	-	8	-	-	-
	3367	3415	3496	3369	3415	3428

21. CONTRACT LIABILITIES

Reconciliation of contract liabilities

Opening balance	1 364	1 274	659	1 322	1 226	641
IFRS change	99	90	615	107	96	585
	1463	1 364	1 274	1 429	1 322	1 226

Split between non-current and current portions

Non-current liabilities	43	80	51	43	80	51
Current liabilities	1420	1284	1223	1386	1242	1175
	1463	1364	1274	1429	1322	1226

Contract liabilities relating to construction contracts represent balances that are due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019

22. ADVANCED PAYMENTS RECEIVED

Non-current liabilities	2071	1962	2170	2071	1945	2144
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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 (2019/20: ten years; 2018/19: ten years) and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current.

23. PROVISIONS**Reconciliation of provisions - Group - 2021**

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions	Total
Site restoration	231	(1)	-	17	247
Legal proceedings	1	-	-	-	1
Contract risk and onerous contracts	256	-	-	(253)	3
Product Warranty and support	279	-	(7)	-	272
Counter trade	34	-	3	-	37
Insurance	17	-	-	(17)	-
	818	(1)	(4)	(253)	560

Reconciliation of provisions - Group - 2020

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions	Total
Site restoration	189	-	(3)	45	231
Legal proceedings	1	-	-	-	1
Contract risk and onerous contracts	712	24	-	(480)	256
Product warranty and support	262	-	-	17	279
Other	5	-	(5)	-	-
Counter trade	29	-	5	-	34
Insurance	9	16	(8)	-	17
	1207	40	(11)	(418)	818

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
23. PROVISIONS (CONTINUED)						
Reconciliation of provisions - Group - 2019						
	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions		Total
Site restoration	209	-	-	(20)		189
Legal proceedings	1	-	-	-		1
Contract risk and onerous contracts	152	619	(1)	(58)		712
Product warranty and support	272	-	(104)	94		262
Other	-	5	-	-		5
Counter Trade	34	-	-	(5)		29
Insurance	19	-	(10)	-		9
Performance Guarantees	1	-	(1)	-		-
	688	624	(116)	11		1207
Reconciliation of provisions - Group - 2021						
	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions		Total
Site restoration	226	(1)	-	22		247
Legal proceedings	1	-	-	-		1
Contract risk and onerous contracts	47	-	-	(44)		3
Product warranty and support	160	-	(8)	36		188
Counter Trade	26	-	8	-		34
	460	(1)	-	14		473
Reconciliation of provisions - Group - 2020						
	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions		Total
Site restoration	185	-	(3)	44		226
Legal proceedings	1	-	-	-		1
Contract risk and onerous contracts	75	4	-	(32)		47
Product warranty and support	155	23	(10)	(8)		160
Other	5	-	(5)	-		-
Counter Trade	24	-	2	-		26
	445	27	(16)	4		460

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
23. PROVISIONS (CONTINUED)						
Reconciliation of provisions - Company - 2019						
		Opening balance	Charged to the income statement	Realised	Unused amounts reversed/unwinding of discount on provisions	Total
Site restoration		205	-	-	(20)	185
Legal proceedings		1	-	-	-	1
Contract risk and onerous contracts		57	21	(1)	(2)	75
Product warranty and support		159	31	(23)	(12)	155
Other		-	5	-	-	5
Counter Trade		31	24	-	(31)	24
Performance Guarantees		1	-	-	(1)	-
		454	81	(24)	(66)	445
Non-current liabilities	393	407	621	312	301	254
Current liabilities	167	411	586	161	159	191
	560	818	1207	473	460	445

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.

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.

Counter trade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary and are calculated as a percentage of the export sales contract value. A provision for countertrade is raised once the group has a present legal or constructive obligation to settle them.

Other provisions

Other provisions comprise the following:

Legal costs and dispute

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non- performances in which the group or units within the group are involved. It also refers to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R 1 m (2019/20: R1m; 2018/19: R0.7 m) for both the group and company.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019

24. ADVANCE PAYMENT RECEIVED

Current portion	587	991	1037	503	892	959
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Since 2012/13, the group entered in to large long-term contracts on which advance payments were received. These advance payments will be settled over a period of up to ten years (2019/20: ten years; 2018/19: ten years) and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current.

25. TRADE AND OTHER PAYABLES**Financial instruments:**

Trade payables	747	665	1035	664	558	791
Trade payables - related parties	7	34	108	21	34	108
Sundry payables	333	95	137	333	95	137
Accrued leave pay	105	116	88	92	98	71
Accrued bonus	11	16	21	11	13	18
Trade accruals	16	111	62	7	40	44
Sundry accruals	87	11	(13)	-	-	(28)
Other sundry accruals	-	-	14	-	-	-
Sundry VAT	10	-	-	-	-	-
Accrued audit fees	10	13	17	3	4	15
Other accrued expenses	275	276	278	257	236	235
Deposits received	8	8	7	8	8	7
Other payables	5	7	32	5	7	32

Non-financial instruments:

Amounts received in advance	123	123	123	123	123	123
VAT	37	-	-	37	-	-
	1774	1475	1909	1561	1216	1553

Financial instrument and non-financial instrument components of trade and other payables

At amortised cost	1614	1352	1786	1401	1093	1430
Non-financial instruments	160	123	123	160	123	123
	1774	1475	1909	1561	1216	1553

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019

26. DISCONTINUED OPERATIONS OR DISPOSAL GROUPS OR NON-CURRENT ASSETS HELD FOR SALE

As part of the process to wind up the Aerostructure business (Denel Aerostructures SOC Ltd), the carrying value of these assets as at 31 March 2020 is R34 m. Subsequent to year-end, an action to be held in June 2020 to dispose of some of these assets, with the remainder being purchased by Denel SOC, all these assets classified as held for sale have been fairly valued at year end

On 24 February 2019, the Board of Denel approved the sale of Denel's shares in Hensoldt to a prospective buyer subject to price negotiations. On 27 August 2019, the Board of Denel approved the sale of Hensoldt with an indicative price and subject to the PFMA submission and approval of the sale. The sale has been subsequently approved by the Minister of Finance.

Assets and liabilities**Non-current assets held for sale**

Other assets (Net)	190	178	56	56	56	56
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27. REVENUE

Contract revenue ^{1 and 2}	2185	2639	3179	2026	2439	2964
Sale of goods	2167	2583	3155	2008	2383	2940
Service rendered	18	56	24	18	56	24
Revenue from recoveries	-	-	41	-	-	41
Rental Income	130	171	140	130	171	140
	2315	2810	3360	2156	2610	3145

Timing of revenue recognition

At a point in time	1657	1456	158	1567	1589	130
Over time	656	1354	3202	589	1021	3015
	2313	2810	3360	2156	2610	3145

Future revenue**Future revenue from long-term customer contracts**

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

Order backlog duration:	-	-	-	-	-	-
1Year	2048	2023	1937	2048	1643	780
1 - 2 Years	437	402	264	437	300	256
2 - 3 Years	659	26	15	659	26	13
3 - 4 Years	883	30	-	883	-	-
4 - 5 Years	-	-	-	-	-	-
	4027	2481	2216	4027	1969	1049

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

27. 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 these 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;
- Aviation: Denel Aviation;
- 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 (2019/20: 10%, 2018/19: 10%) of the group revenue are aggregated within an operating segment which products and services closest relates to that of the specific entity.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

27. REVENUE (CONTINUED)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Amunitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R	R
Group - 2021								
Segment revenue	18	329	706	818	287	354	22	2534
Revenue from external customers	17	327	703	808	284	187	-	2326
Intergroup	1	2	3	10	3	167	22	208
Contribution	1%	13%	28%	32%	11%	7%	-%	92%
Segment operating profit/(loss)	3	(125)	(28)	(450)	185	75	-	(340)
Net finance	(7)	(7)	11	(186)	(10)	(43)	-	(242)
income/(costs) Share of profit in associated companies	-	-	-	-	-	-	(30)	(30)
Income tax expense	-	-	-	42	-	6	-	48
Net(loss)/profit for the year	(4)	(132)	(17)	(594)	175	38	(30)	(564)
Segment assets	2	117	872	2617	513	2100	-	6221
Deferred tax assets	-	-	-	197	-	-	-	197
Total assets								6418
Segment liabilities	934	1586	388	4618	378	832	-	8736
Deferred tax liabilities	-	-	-	-	-	2	-	2
Total liabilities								8738
Capital expenditure	-	2	42	-	-	-	-	44
Impairment losses raised/(reversed)	-	-	5	-	-	-	-	5
Amortisation i.r.o.segment assets	(3)	17	13	-	11	-	-	44
Fair value adjustment	-	-	-	-	93	-	-	93

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

27. REVENUE (CONTINUED)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Amunitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R	R
Group - 2020								
Segment revenue	23	350	770	179	179	486	619	2606
Revenue from external customers	21	480	733	167	171	223	935	2730
Intergroup revenue	2	2	38	12	8	211	(316)	(43)
Contribution	1%	13%	29%	7%	7%	18%	23%	100%
Net finance income/(costs)	(60)	(33)	13	(161)	(25)	-	(308)	(574)
Share of profit in associated companies	-	-	-	-	-	-	357	357
Income tax expense	-	-	-	70	-	-	-	70
Net(loss)/profit for the year	(60)	(33)	13	(91)	(25)	-	49	(147)
Segment assets	101	880	950	5467	625	1977	(1641)	8359
Deferred tax assets	-	-	-	158	-	-	-	158
Total assets								8517
Segment liabilities	1046	1184	1533	3988	293	695	1734	10473
Capital expenditure	-	2	-	-	-	3	-	5
Impairment losses raised/(reversed)	79	-	(26)	-	7	-	-	60
Amortisation i.r.o.segment assets	43	149	14	29	4	8	-	247
Fair value adjustment	-	-	-	-	-	27	-	27

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
28. COST OF SALES						
Rendering of services	195	200	179	177	145	114
Manufactured goods:						
Raw materials consumed	5	3	34	1	(2)	8
Employee costs	991	1323	1547	983	1242	1456
Depreciation and impairment	72	84	65	72	41	(53)
Manufacturing expenses	586	584	2101	734	838	1852
	1 849	2 194	3 926	1 967	2264	3 377
29. OTHER OPERATING INCOME						
Administration and management fees received	3	50	54	14	50	54
Commissions received	-	1	1	-	-	-
Bad debts recovered	2	-	-	2	-	-
Foreign exchange gain/Loss Unsettled Transactions	21	2	189	-	-	-
Sundry revenue	12	-	-	-	-	-
Dividends Received	9	113	(32)	57	113	(35)
Other income	1 419	134	227	482	126	209
	1 466	300	439	555	289	228
30. OTHER OPERATING GAINS (LOSSES)						
Gains (losses) on disposals, scrappings and settlements						
Property, plant and equipment	14	(1)	-	(7)	(1)	-
Other financial liabilities	-	16	(57)	-	-	-
	14	15	(57)	(7)	(1)	-
Foreign exchange gains (losses)						
Net foreign exchange loss	(511)	(229)	(171)	(403)	(28)	(171)
Total other operating gains (losses)	(497)	(214)	(228)	(410)	(29)	(171)
31. INVESTMENT INCOME						
Interest income						
Shareholders loan	-	24	31	-	-	-
Investments in financial assets:						
Bank and other cash	1	3	4	-	-	-
Trade and other receivables	-	-	3	-	-	-
Other financial assets	26	162	195	26	157	190
Total interest income	27	189	233	26	157	190
32. FINANCE COSTS						
Non-current borrowings	-	12	1	-	-	-
Lease liabilities	7	4	1	-	-	-
Bank overdraft	-	8	5	-	-	-
Current borrowings	-	1	1	-	-	-
Late payment of tax (Tax authorities)	4	1	2	-	-	-
Unwinding of discount on provisions and other liabilities	-	44	79	-	-	-
Interest paid	489	703	759	482	695	750

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

Total finance costs	500	773	848	482	695	750
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FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
33. TAXATION						
Major components of the tax (income) expense						
Current						
Local income tax - current period	(6)	6	-	-	-	-
Current tax	1	-	1	1	-	1
	(5)	6	1	1	-	1
Deferred						
Originating and reversing temporary differences	(43)	(73)	(69)	-	-	-
	(48)	(67)	(68)	1	-	1

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28,00%	28,00%	-%	28,00%	28,00%	-%
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NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
34. CASH (USED IN)/GENERATED FROM OPERATIONS						
Loss before taxation	(476)	(1872)	(3306)	(1029)	(1365)	(2065)
Adjustments for:						
Depreciation and amortisation	94	145	76	55	79	(60)
(Gains) losses on disposals, scrappings and settlements of assets and liabilities	-	(15)	57	-	1	-
Gains on fair value adjustments	(7)	-	-	-	-	-
Impairment raised/reversed	70	-	-	79	-	-
Losses on foreign exchange	511	372	171	403	28	171
Income from equity accounted investments	82	(65)	(425)	-	(65)	(425)
Interest income	(25)	(189)	(233)	(25)	(157)	(190)
Finance costs	500	773	848	480	695	750
Fair value adjustments	(3)	-	-	(3)	-	-
Profit on derecognition of investment	(931)	-	-	-	-	-
Net impairments and movements in credit loss allowances	-	656	1202	-	656	1200
Foreign gains	(469)	-	-	(448)	-	-
Disposal of PPE	24	-	-	12	-	-
Movement in loan repayment	-	(859)	834	-	(1912)	(496)
Changes in working capital:						
Inventories	457	384	519	314	295	406
Trade and other receivables	100	91	470	50	32	312
Contract assets	(229)	182	991	(276)	(92)	862
Other financial assets	-	(12)	(30)	-	(12)	(30)
Advance payments made	111	8	37	72	17	45
Trade and other payables	445	(635)	(687)	345	(337)	(678)
Contract liabilities	215	90	615	89	1322	585
Advanced payments received	-	(208)	326	-	(199)	300
Movements in provisions	(88)	(431)	539	12	(26)	11
	352	(1585)	2004	130	(1040)	698

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
35. TAX (PAID) REFUNDED						
Balance at beginning of the year	4	7	13	(3)	-	3
Current tax for the year recognised in profit or loss	5	(6)	(1)	(1)	-	(1)
Balance at end of the year	(11)	(4)	(7)	-	3	-
	(2)	(3)	5	(4)	3	2

36. CAPITAL COMMITMENTS**Approved and contracted for**

• Property, plant and equipment	-	3	3	-	1	-
• Land and buildings	-	2	-	-	-	-
• Machinery and equipment	-	1	1	-	1	-
• Work in progress	-	-	2	-	-	-
• Investment properties	-	-	13	-	-	12
	-	6	19	-	2	12

37. CONTINGENT LIABILITIES**Guarantees**

The following guarantees were issued by the group:

Advance payment guarantees	1740	2716	3804	1740	2716	3804
Guarantees to banks for credit facilities of subsidiaries	-	-	-	-	-	-
Guarantees to local authorities	-	10	16	-	10	16
Performance guarantees	425	687	808	425	687	808
Other guarantees	145	109	249	145	109	249
Total of guarantees issued	2310	3522	4877	2310	3522	4877
Guarantees issued on behalf of associated companies	-	-	(98)	-	-	(98)
Advance payment guarantees	-	-	(14)	-	-	(14)
Guarantees to banks for credit facilities of subsidiaries	-	-	(39)	-	-	(39)
Performance guarantees	-	-	(36)	-	-	(36)
Other guarantees	-	-	(9)	-	-	(9)
	2310	3522	4779	2310	3522	4779

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. CONTINGENT LIABILITIES (CONTINUED)**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.

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 2020/21: R2.5bn (2019/20: R2.5bn, 2018/18: R2.5bn) and an estimated contract loss of approximately R1.4bn (2021/20: 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 2020 various onerous terms and conditions to the contract was renegotiated to mitigate risk to the company and shareholder.

Site restoration

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 2020/21: 15% (2019/20: 15%, 2018/19: 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 ordnates 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 2020/21: R37 (2019/20: R31.6m, 2018/19: R31m) for both, group and company.

Counter trade

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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. CONTINGENT LIABILITIES (CONTINUED)

	2021			2020			2019		
	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Counter trade obligation									
Total countertrade obligation	9 292	29	9 321	10, 616	9 683	20 299	8 507	7 930	16 437
Obligation discharged	(7 582)	(29)	(7 611)	(8 350)	(2 622)	(10 972)	(6 679)	(2 087)	(8 766)
Outstanding obligation	1 710	-	1 710	2 266	7 061	9 327	1 828	5 843	7 671
To be settled by third party	-	-	-	-	(4 558)	(4 558)	-	(3 789)	(3 789)
Net obligation of the group	1 710	-	1 710	2 266	2 503	4 769	1 828	2 054	3 882
Penalties									
Maximum penalty for non compliance	14	-	14	205	351	556	167	292	459
Third party obligation	-	-	-	-	(228)	(228)	-	(189)	(189)
Net group exposure	14	-	14	205	123	328	167	103	270
Guarantees issued									
Group issued	66	117	183	78	117	195	11	96	107
Third party guarantees	-	28	28	-	28	28	-	23	23
	66	145	211	78	145	223	11	119	130
Provision to settle obligation	-	-	-	1	-	1	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. RELATED PARTIES

Relationships

Ultimate holding company

Holding company

Subsidiaries

Associates

Major national public entities National government

Post employment benefit plan for employees of entity and/or other related parties

Members of key management

Denel SOC Ltd and subsidiaries

Denel SOC Ltd

Refer to note 9

Refer to note10

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. RELATED PARTIES (CONTINUED)

Related party balances

2021

	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Advance payments made	41	15	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2008	-	-
Allowance for doubtful debts	1	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	9	-
Dividends received	5	-	-	44	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	1426	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	3	-
Guarantees issued to third parties on behalf of related parties	-	4000	-	-	-	-	-	-
Interest paid	14	-	-	-	-	-	-	-
Interest received	33	-	-	-	-	-	-	-
Lease payments	40	-	-	-	-	-	-	-
Outstanding balances payable	322	20	-	-	-	1	59	2
Outstanding balances receivable	1530	3	-	1	-	50	19	-
Penalties paid	-	-	-	-	-	-	3	-
Purchase of goods	27	13	-	2	-	-	-	-
Purchase of properties and other assets	84	-	-	-	-	-	-	-
Sale of goods	2	-	-	9	-	29	938	-
Services received	97	1	-	-	-	4	1	60
Services rendered	18	-	-	-	-	-	-	-
	2214	4052	-	56	-	4612	1032	62

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. RELATED PARTIES (CONTINUED)

2020

	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Advance payments made	17	-	-	-	-	-	-	-
Advance payments received	24	-	31	1	-	2009	132	-
Allowance for doubtful debts	-	-	-	-	-	-	-	8
Amounts written off during the period	-	3	-	-	-	-	-	-
Dividends received	-	26	-	85	-	-	-	-
Guarantees issued to related parties	-	-	26	-	-	2027	27	-
Guarantees issued to third parties by related parties	-	-	-	-	-	4	-	-
Guarantees issued to third parties on behalf of related parties	-	4000	-	68	-	-	-	-
Interest paid	76	-	12	-	-	-	16843	-
Interest received	87	-	-	-	-	-	-	-
Lease payments	54	-	10	-	-	-	-	-
Outstanding balances payable	282	36	683	4	-	9	8	-
Outstanding balances receivable	767	40	1	45	-	8	31	-
Purchase of goods	9	86	2	2	-	-	2	20
Sale of goods	25	147	-	49	-	367	723	-
Services received	219	14	94	-	-	106	13	-
Services rendered	8	-	5	-	-	-	1	-
Transfers under licence agreements	1570	4351	866	255	-	4530	944	20
	3138	8703	1730	509	-	27836	18724	48

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. RELATED PARTIES (CONTINUED)

2019

	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Advance payments received	26	-	-	12	-	-	151	-
Allowance for doubtful debts	-	-	-	-	-	-	8	-
Amounts written off during the period	-	3	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	230	-	-	265	-
Guarantees issued to third parties on behalf of related parties	-	-	22	286	-	-	-	-
Interest paid	78	-	1	-	-	-	-	-
Interest received	82	-	3	-	-	-	-	-
Lease payments	51	-	13	-	-	-	-	-
Outstanding balances payable	887	52	387	13	-	-	2	-
Outstanding balances receivable	424	41	33	73	-	11	34	-
Purchase of goods	12	87	1	414	-	-	-	1
Sale of goods	62	144	-	-	-	121	571	-
Services received	213	20	101	2	-	161	6	-
Services rendered	8	-	6	87	-	-	311	-
	1843	347	567	1117	-	293	1348	1

	GROUP			COMPANY		
	2021	2020	2019	2021	2020	2019
Compensation to directors and other key management						
Short-term employee benefits	425	517	613	400	416	501

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

39. DIRECTORS' EMOLUMENTS

The below emoluments were paid to the directors sholding a prescribed office during the year. All amounts are rounder to the nearest thousand '000.

**Executive
2021**

Directors' emoluments	Basic salary	Pension fund contribution	Medical aid contribution	Other	Company contributions	Fees for acceptance of office	Total
Executive director							
Mr D Du Toit 3	948	50	52	132	88	-	1 270
Ms C le Grange 4	2 434	105	71	483	186	-	3 279
Mr T Sadik 5	1 980	-	-	178	-	-	2 158
Mr W Hlakoane	2 124	90	100	426	159	-	2 899
	7 486	245	223	1 219	433	-	9 606
Prescribed officers							
Ms Ngema	2 043	75	86	190	133	-	2 527
	2 043	75	86	190	133	-	2 527

Directors fees paid or accrued to the non-executive directors of the group

Ms MW Hlahla	-	-	-	-	-	904	904
Lt Gen.(rtd).TT Matanzima	-	-	-	-	-	105	105
Mrs GT Serobe	-	-	-	-	-	240	240
Mr MT Sadik	-	-	-	-	-	284	284
Ms SR Rabkin	-	-	-	-	-	245	245
Dr SP Sibisi	-	-	-	-	-	208	208
Ms N Siyotula	-	-	-	-	-	207	207
Mr TH Magazi	-	-	-	-	-	326	326
Mr MM Mnisi	-	-	-	-	-	161	161
Ms MK Lehloenya	-	-	-	-	-	177	177
Dr H Nel	-	-	-	-	-	353	353
Gen.(rtd).S Nyanda	-	-	-	-	-	139	139
	9 529	320	309	1 409	566	3 349	15 482

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

39. DIRECTORS' EMOLUMENTS (CONTINUED)

2020

Directors' emoluments	Basic salary	Pension fund contribution	Medical aid contribution	Other	Company contribution	Lump sum	Fees for acceptance of office	Total
Amounts paid/accrued to executive directors of the group								
Mr D DuToit 3	4 114	149	129	343	265	-	-	5 000
Ms C le Grange 4	1 520	61	34	247	108	-	-	1 970
prescribed officers								
Ms VQ Qinga 5	327	12	18	27	22	628	-	1 034
Mr T Klenyhans 10	399	-	13	4	-	3 200	-	3 616
Mr A Nqwaba	1 162	43	52	97	76	-	-	1 430
Mr W Hlakoane	1 860	67	137	148	119	-	-	2 331
Mr WA de Klerk 11	517	-	-	43	-	-	-	560
Ms Ngema	1 532	56	60	128	100	300	-	2 176
Mr G van Zyl	715	28	57	149	50	-	-	999
	6 512	206	337	596	367	4 128	-	12 146
Directors fees paid or accrued to the non-executive directors of the group								
Ms MW Hlahla	-	-	-	-	-	-	962	962
Lt Gen. (rtd) TT Matanzima	-	-	-	-	-	-	326	326
Mrs GT Serobe	-	-	-	-	-	-	389	389
Mr MT Sadik	-	-	-	-	-	-	1 644	1 644
Ms SR Rabkin	-	-	-	-	-	-	446	446
Dr SP Sibisi	-	-	-	-	-	-	268	268
Ms N Siyotula	-	-	-	-	-	-	413	413
Mr TH Magazi	-	-	-	-	-	-	751	751
Mr MM Mnisi	-	-	-	-	-	-	269	269
Ms MK Lehloenya	-	-	-	-	-	-	586	586
Dr H Nel	-	-	-	-	-	-	526	526
Gen. (rtd) S Nyanda	-	-	-	-	-	-	363	363
	-	-	-	-	-	-	6 943	6 943

- 1 Resigned as GCEO effective 12 June 2018
- 2 Resigned as GCFO effective 9 November 2018
- 3 Appointed as GCEO effective January 2019 and resigned August 2020
- 4 Appointed as GCFO effective 9 September 2019 and resigned March 2021
- 5 Resigned as Group Executive Communications and Public Affairs effective 31 May 2019
- 6 Resigned as Group Company Secretary effective 7 December 2018
- 7 Includes lump sum payment on variation of contract from permanent to contract basis
- 8 Resigned as GCOO effective 30 November 2018
- 9 Resigned as Group Internal Audit Executive effective 7 January 2019
- 10 Resigned as Group Executive Strategy effective 4 April 2019
- 11 Resigned as GCFO effective 31 May 2019
- 12 Other includes mainly 13th cheques and car allowances.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. PRIOR PERIOD ERRORS

Prioryear Denel's share of OCI on the investment in RDM

Denel's share of hedging reserves not taken into account when accounting for the investment in associate RDM financial information and the prioryear Denel's share of Other Comprehensive Income (OCI) not taken into account in the statement of financial performance. The equity accounting has been performed to include the share of OCI and the hedging reserves of RDM. The impact is as follows:

Cost of investments in associated companies	Previously Disclosed	Corrected Disclosure
Unlisted shares	394	394
Net share of results in associated companies	908	885
Share of current year profit before tax	118	2
Share of current year tax	(30)	63
Share of current year profit after tax	88	25
Dividends paid	(85)	(85)
Transferred to non current assets - Hendsoldt	-	(25)
Share of other comprehensive income-fair value hedge	-	65
Accumulated profitat 1April	905	905
Net investments in associated companies	1 302	1 279

Denel Medical Benefit trust

Denel SoC Limited did not correctly account for the service cost and net interest on the net defined benefit asset and for the net actuarial loss recognised during the year in the Statement of Profit or Loss and other Comprehensive Income in terms of IAS 19: Employee benefits, resulting in the net benefit in the consolidated financial statements being over stated.

Denel Aerostructures SOC Ltd Assets Held for sale

Denel SoC Limited did not recognise the probable sale of assets in the subsidiary (Denel Aero structures (Pty) Ltd as a non-current asset held for sale in the consolidated financial statements, even though the sale meets the requirements of IFRS 5: Non-current assets held for sale and discontinued operations for the associate to be classified as held for sale. This was raised as an error and it has been corrected by reclassifying the assets as assets held for sale in the consolidated annual financial statements.

IFRS 10: Consolidations Investment in subsidiaries

An impairment test on the goodwill remaining from the acquisition of Denel Vehicle Systems (Pty) Ltd was performed. Upon review of the projected cashflows, management reviewed the assumptions on the probabilities on some of the transaction included. This has resulted in the correction of error. The calculated recoverable amount was found to be negative based on the objective evidence of impairment, thus the Investment in Denel Vehicle Systems (Pty) Ltd is fully impaired. The impairment has been allocated to the goodwill and the assets in the group.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. PRIOR PERIOD ERRORS (CONTINUED)

Investment in subsidiaries	Cost		Impairment		Carrying value	
	Amended	Previously reported	Amended	Previously reported	Amended	Previously reported
Denel	1 689	1 689	(1 689)	(1 689)	-	-
Aerostructures						
Densecure	8	8	-	-	8	8
LMT Holdings	16	16	(16)	(16)	-	-
Denel Vehicle Systems	828	828	(828)	(470)	-	350
Turbomeca	94	94	(94)	(94)	-	-

The impact of the impairment has been adjusted to Retained earnings.

Preparation of consolidated annual financials

The current year preparation of the consolidated financial statement has been subsequently corrected to ensure intergroup transactions are complete and supported by sufficient records. Below is the impact of intergroups were not accounted for in the 2020 financial year.

Profit or Loss

Revenue	-
Operating expenditure	(15)
Interest expense	(3)
	<u>(18)</u>

Misstatement on non-current asset held for sale

In the prior year an amount of R33million was incorrectly included in the non-current asset held for sale balance as property, plant and equipment, this related to the assets that were sold to Denel SOC Ltd during the process to wind up the Aerostructures business. Denel SOC Ltd (parent company) holds 100% shareholding in Aerostructures SOC Ltd (subsidiary), therefore, the above sale of property, plant and equipment is a transaction between entities within a group, which is an intergroup transaction and should have been eliminated during the consolidated financial statement preparations.

	Carrying value	
	Amended	Previously reported
Note 26		
Non Current Asset Held For Sale		
Property, plant and equipment	-	33
	-	<u>33</u>
Note 4		
Property, plant and equipment	852	819
Property, plant and equipment	<u>852</u>	<u>819</u>

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit committee.

41.1 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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The policy further requires that for specifically identified contracts, the contractual terms must provide for the retention of ownership over goods until full and final payment has been received. Additionally, security for payment must also be contractually stipulated. Security usually takes the form of irrevocable letters of credit, bank guarantees (from first class international banks in acceptable countries)/bonds, promissory notes and credit insurance. In the case of high risk clients who are unable to provide security over future payments, the group may transact with them only on a pre-payment basis.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

Financial instruments managed by the group's treasury function

The Finance and Investment Committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. Counterparties are assessed based on their official Fitch ratings. Counterparties are approved by the Finance and Investment committee. Various rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with certain counterparties, usually banks with F1 and F1+ 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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit exposure and concentration of credit risk

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

Group	2021			2020			2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	R	R	R	R	R	R	R	R	R
Trade receivables¹	202	311	513	152	295	447	116	255	371
Government and related units	182	170	352	128	50	178	41	(3)	38
Non-government units	20	141	161	24	245	269	75	258	333
Sundry receivables¹	524	-	524	346	1	347	1 249	1	1 250
Government and related units	505	-	505	340	-	340	1 243	-	1 243
Non-government units	19	-	19	6	1	7	6	1	7
Interest receivables¹	-	-	-	1	-	1	-	-	-
Government and related units	-	-	-	1	-	1	-	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Loans and receivables (refer note	1 014	-	1 014	1 045	-	1 045	1 823	-	1 823
Government and related units	1 014	-	1 014	1 045	-	1 045	1 823	-	1 823
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits²	584	6	590	552	16	568	425	11	436
Government and related units	71	-	71	70	-	70	-	-	-
Non-government units	438	6	444	482	16	498	425	11	436
	2 249	317	2 566	2 096	312	2 408	3 613	267	3 880

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

Company	2021			2020			2019		
	Domestic R	Foreign R	Total R	Domestic R	Foreign R	Total R	Domestic R	Foreign R	Total R
Trade receivables¹	-	-	-	379	313	692	123	429	552
Government and related units	-	-	-	101	37	138	48	116	164
Non-government units	-	-	-	278	276	554	75	313	388
Sundry receivables¹	-	-	-	262	-	262	53	-	53
Government and related units	-	-	-	25	-	25	14	-	14
Non-government units	-	-	-	237	-	237	39	-	39
Interest receivables¹	-	-	-	340	4	344	-	-	-
Government and related units	-	-	-	149	-	149	-	-	-
Non-government units	-	-	-	191	4	195	-	-	-
Loans and receivables (refer note)	-	-	-	590	-	590	-	-	-
Government and related units	-	-	-	590	-	590	-	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits²	-	-	-	385	16	401	457	85	542
Government and related units	-	-	-	43	-	43	-	-	-
Non-government units	-	-	-	342	16	358	457	85	542
	-	-	-	1 956	333	2 289	633	514	1 147

1. Refer note 11.

1. Refer note 18.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Ageing

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

Group	2021				2020				2019			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R	R	R	R	R	R	R	R	R	R	R	R
Trade receivables¹	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
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 receivables¹	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 receivables¹	-	-	-	-	1	-	-	1	3	-	-	3
Not past due, not impaired	-	-	-	-	1	-	-	1	3	-	-	3
Past due	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2021				2020				2019			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R	R	R	R	R	R	R	R	R	R	R	R
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 11.

1. Refer note 18.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Ageing

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

Company	2021				2020				2019			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R	R	R	R	R	R	R	R	R	R	R	R
Trade receivables¹	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
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 receivables¹	53	-	-	53	89	-	-	89	43	1	(1)	43
Not past due, not impaired	33	-	-	33	82	-	-	82	39	-	-	39
Past due Less than 30 days	17	-	-	17	6	-	-	6	-	-	-	-
More than 90 days	3	-	-	3	1	-	-	1	4	1	(1)	4
Interest receivables¹	-	-	-	-	1	-	-	1	3	-	-	3
Not past due, not impaired	-	-	-	-	1	-	-	1	3	-	-	3
Past due	-	-	-	-	-	-	-	-	-	-	-	-
Cash and short-term deposits²	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
	894	268	(93)	1 069	2 526	51	(51)	2 526	3 894	43	(43)	3 894

1. Refer note 17.

1. Refer note 16.

	Group			Company		
	2021	2020	2019	2021	2020	2019

Security held over non-derivative financial assets

Irrevocable Letters of Credit confirmed by foreign banks

	-	-	182	-	-	182
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NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41.2 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 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).

SA rand (ZARm)	194	139	134	194	139	134
US dollar (US\$m)	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

GROUP

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flow	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R	R	R	R	R	R
2021						
Interest bearing loans and borrowings	522	522	78	332	108	4
Trade and other payables	2 445	2 445	413	2 032	-	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2 311	2 310	43	852	1 277	138
	5 192	5 277	534	3 216	1 385	142
2020						
Interest bearing loans and borrowings	771	754	238	517	-	-
Trade and other payables	-	-	-	-	-	-
Derivative financial liabilities	102	102	-	15	87	-
Guarantees	5 623	5 499	1 297	3 696	506	-
	6 496	6 355	1 535	4 228	593	-
2019						
Interest bearing loans and borrowings	936	916	58	858	-	-
Trade and other payables	-	-	-	-	-	-
Derivative financial liabilities	247	247	-	145	102	-
Guarantees	7 034	6 913	1 742	4 650	522	-
	8 217	8 076	1 800	5 653	624	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY	Contractual undiscounted cash flows					
	Carrying amount	Total cash flow	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R	R	R	R	R	R
2021						
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	-
2020						
Interest bearing loans and borrowings	3 168	3 168	829	2 339	-	-
Trade and other payables	-	-	-	-	-	-
Derivative financial liabilities	2	2	2	1	-	-
Guarantees	-	-	-	-	-	-
	3 170	3 170	831	2 340	-	-
2019						
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	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.3 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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Figures in Rand million

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

	Group			Company		
	2021	2020	2019	2021	2020	2019
Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	-	-	-	46	58	15
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	-	-	-	2	6
Loans and borrowings	-	-	-	427	(159)	(602)
Loans and other receivables	-	-	-	694	700	1 306
Treasury asset	-	-	-	-	-	-

Fixed rate instruments**Fair value sensitivity analysis for fixed rate instruments**

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

Variable rate instruments

Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	-	-	-	433	494	440
Commercial paper	-	-	-	3 212	3 414	3 213
Loans and borrowings	-	-	-	163	162	209
Loans and other receivables	-	-	-	-	327	-
Treasury asset	-	-	-	-	-	-

Cash flow sensitivity analysis for variable rate instruments

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

Cash and cash equivalents

Net effect on profit and loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.	-	-	-	124	171	162
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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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 28, 29 and 30.

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

Figures in Rand million

	2021 USD m	2020 EUR m	2019 USD m	2021 EUR m	2020 USD m	2019 EUR m
GROUP						
Assets	-	23	34	-	1	6
Trade receivables	-	4	6	-	-	4
Controlled foreign currency accounts (CFC)	-	-	1	-	-	1
Firm commitments (export revenue)	-	19	27	-	1	1
Liabilities	-	4	5	-	(1)	(3)
Trade payables	-	4	5	-	(1)	(2)
Firm commitments (import)	-	-	-	-	-	(1)
Gross balance sheet exposure	-	27	39	-	-	3
Gross balance sheet exposure	-	27	39	-	-	3
Imports	-	-	-	-	-	1
Net exposure	-	27	39	-	-	4

Figures in Rand million

	2021 USD m	2020 EUR m	2019 USD m	2021 EUR m	2020 USD m	2019 EUR m
COMPANY						
Assets	-	-	-	-	-	-
Controlled foreign currency accounts (CFC)	-	-	-	-	-	-

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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

FOREIGN CURRENCY DERIVATIVES

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

GROUP	2021			2020			2019		
	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R
Revenue contracts									
Euro (EUR)	-	-	-	-	-	-	5 440 047	-	5 440 047
US Dollar (USD)	-	-	-	-	-	-	9 713 448	-	-
	-	-	-	-	-	-	-	-	5 440 407
Purchase contracts									
Euro (EUR)	-	-	-	-	-	-	19 147 023	453	506
Sterling (GBP)	-	-	-	-	-	-	191 678	1	1
Switzerland (CHF)	-	-	-	-	-	-	8 447 633	139	161
US Dollar (USD)	-	-	-	-	-	-	-	618	699

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2021			2020			2019					
	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
MATURITY TABLE												
Group												
Foreign currency derivatives												
Revenue contracts												
Euro (EUR)	2 132 266	-	-	2 132 266	15 011 978	-	-	15 011 978	8 785 769	-	-	8 785 769
Sterling (GBP)	21 521	-	-	21 521	21 521	-	-	21 521	57 977	-	-	57 977
Switzerland (CHF)	151 290	-	-	151 290	2 450 046	-	-	2 450 046	513 143	-	-	513 143
US Dollar (USD)	56 535 296	979 355	-	57 514 651	58 578 490	-	-	58 578 490	33 490 757	2 542 434	-	36 033 191
Purchase contracts												
Euro (EUR)	4 507 499	-	-	4 507 499	9 783 591	-	-	9 783 591	19 147 023	-	-	19 147 023
Sterling (GBP)	284 089	-	-	284 089	1 027 807	-	-	1 027 807	2 315 530	-	-	2 315 530
Switzerland (CHF)	41 778	-	-	41 778	91 378	-	-	91 378	191 678	-	-	191 678
US Dollar (USD)	332 967	-	-	332 967	22 088 741	-	-	22 088 741	8 447 633	-	-	8 447 633

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Company	2021			2020			2019			
	One year	Two years	Three to five years	One year	Two years	Three to five years	One year	Two years	Three to five years	
	R	R	R	R	R	R	R	R	R	
Foreign currency derivatives										
Revenue contracts										
Euro (EUR)	921 907	-	-	921 907	11 907 253	-	11 907 253	9 902 618	-	9 902 618
Sterling (GBP)	-	-	-	-	-	-	-	79 700	-	79 700
Switzerland (CHF)	151 290	-	-	151 290	2 450 046	-	2 450 046	513 143	-	513 143
US Dollar (USD)	29 549 972	-	-	29 549 972	39 503 414	-	39 503 414	2 863 527	-	2 863 527
Purchase contracts										
Euro (EUR)	3 722 203	-	-	3 722 203	8 756 809	-	8 756 809	7 164 023	-	7 164 023
Sterling (GBP)	284 089	-	-	284 089	1 027 807	-	1 027 807	487 401	-	487 401
Switzerland (CHF)	41 778	-	-	41 778	91 378	-	91 378	191 678	-	191 678
US Dollar (USD)	-	-	-	-	21 968 653	-	21 968 653	7 530 173	-	7 530 173

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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2021			2020			2019		
	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R
Group									
FOREIGN CURRENCIES									
Export transactions									
Sterling(GBP)	-	-	-	-	-	-	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)	-	-	-	-	-	-	-	2	2
Sterling (GBP)	-	-	-	-	-	-	-	1	1
Switzerland (CHF)	-	-	-	-	-	-	-	5	5
US Dollar (USD)	-	-	-	-	-	-	-	98	104

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2021				2020				2019			
	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
Company												
FOREIGN CURRENCIES												
Export contracts												
US Dollar (USD)	-	-	-	-	-	-	-	-	21	-	-	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

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

Commodity risk

- 2016/17: Export contracts: €381 014 matures within one year.
- 2016/17: Exports contracts: £27 800 matures within one year.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.4 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	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	R	R	R	R	R
2021					
Cash and cash equivalents	610	-	-	610	610
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	649	-	-	649	649
	1 259	-	-	1 259	1 259
Financial liabilities					
Associated companies: loans	-	(3 495)	-	(3 495)	(3 495)
	-	(3 495)	-	(3 495)	(3 495)
Net financial assets/(liabilities)	1 259	(3 495)	-	(2 236)	(2 236)
2020					
Cash and cash equivalents	1 269	-	-	1 269	1 269
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	742	-	-	742	742
	2 011	-	-	2 011	2 011
Financial liabilities					
Associated companies: loans	-	(3 342)	-	(3 342)	(3 342)
	-	(3 342)	-	(3 342)	(3 342)
Net financial assets/(liabilities)	2 011	(3 342)	-	(1 331)	(1 331)
2019					
Cash and cash equivalents	580	-	-	580	580
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	833	-	-	833	833
	1 413	-	-	1 413	1 413
Financial liabilities					
Interest bearing borrowings	-	(3 265)	-	(3 265)	(3 265)
	-	(3 265)	-	(3 265)	(3 265)
Net financial assets/(liabilities)	1 413	(3 265)	-	(1 852)	(1 852)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	R	R	R	R	R
2021					
Cash and cash equivalents	505	-	-	505	505
Financial assets	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	615	-	-	615	615
	1 120	-	-	1 120	1 120
Financial liabilities					
Interest bearing borrowings	-	(3 428)	-	(3 428)	(3 428)
	-	(3 428)	-	(3 428)	(3 428)
Net financial assets/(liabilities)	1 120	(3 428)	-	(2 308)	(2 308)
2020					
Cash and cash equivalents	570	-	-	570	570
Financial assets	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	665	-	-	665	665
Trade and other receivables	1 235	-	-	1 235	1 235
	1 235	-	-	1 235	1 235
Financial liabilities					
Interest bearing borrowings	-	(3 168)	-	(3 168)	(3 168)
	-	(3 168)	-	(3 168)	(3 168)
Net financial assets/(liabilities)	1 235	(3 168)	-	(1 933)	(1 933)
2019					
Cash and cash equivalents	468	-	-	468	468
Financial assets					
Loans and receivables	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	697	-	-	697	697
	1 165	-	-	1 165	1 165
Financial liabilities					
Interest bearing borrowings	-	(3 003)	-	(3 003)	(3 003)
	-	(3 003)	-	(3 003)	(3 003)
Net financial assets/(liabilities)	1 165	(3 003)	-	(1 838)	(1 838)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (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 1.4.4.	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.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

GROUP	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	R	R	R	R	R	R
2021						
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)
2020						
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)
2019						
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						
	(853)	(853)	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liabilities not measured at fair value

Net value	3 925	3 925	-	3 841	937	4 778
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42. GOING CONCERN

Denel (SOC) Ltd annual financial statements for the year ended 31 March 2021 have been prepared on a going concern basis. In terms of International Accounting Standard 1 Presentation of Financial Statements (IAS 1) the directors are required to assess the entity's ability to continue as a going concern for the foreseeable future considering all available information, which should be at least, but is not limited to twelve months from the balance sheet date. The board assessed the Denel group's ability to continue as a going concern in the foreseeable future by performing the following:

- In February 2024 the board reviewed and approved the Corporate Plan 2025 - 2027 and its actions to improve Denel's performance and solvency position during the next 12 months.
- Considered the commercial viability of the business including the major contracts included in the order book and pipeline and Denel's ability to execute on these orders;
- Noted the continued support of its Shareholder as a going concern when it received the financial support for the repayment of its debt of R2.9bn as well as the interest thereon. Furthermore, the Shareholder announced a re-capitalisation of Denel on 26 October 2022 with the full support on Denel's strategic importance to the country and the defence industry of the country.
- Considered that there remains positive sentiment towards Denel and continued, expressed interest in Denel's products, capabilities and Intellectual Property.
- Considered the existing strategic relationship between the DoD and Denel. This has been demonstrated by the continued base load work received on critical capabilities, as well as specific engagements that took place between Denel and Armscor to reach an amicable solution on the major contracts as well as the MoU signed to strengthen the relationship and define areas of collaboration between these parties.
- Considered the external factors and the wider economic environment in which Denel operates.
- Reviewed the cash flow forecasts for the period of twelve months with adequate cash in the foreseeable future under the assumptions of receipt of the balance of the recapitalisation funds of R3.4bn received in March 2023 during the progression of the 2024/25 financial year

he directors have reviewed the budgets and cash flow forecasts for the next 12 months, as well as the current liquidity and solvency position of the group and believe that the group will continue in operation for the foreseeable future even though there are significant doubts that are mainly caused by liquidity constrains and losses that continues to exist in the business. Management believes that the plans that exist will eliminate the uncertainties/ address the risks that exist when implemented.

In the period up to about mid-2022, Denel was effectively out of the market as a result of reputational damage and liquidity challenges that existed in the business. A turnaround plan was formulated to address challenges that existed and to turn Denel into a profitable organisation.

During the first part of Denel's Turnaround strategy, Denel put a lot of effort into restarting local programmes and engaging the market to discuss Denel being back in business. The company made a relaunch at the Africa Aerospace and Defence (AAD) Expo in September 2022. At that stage, a number of Users in the market were about to go to market for systems that Denel could supply, but Denel was completely out of the running in any of these countries. After AAD Denel approached all of the most likely Users / Clients and lobbied to allow Denel back in. Furthermore, Denel successfully held a series of customer demonstrations of its key products to these potential clients and foreign entities.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

Denel is now focusing on ensuring that they are back on the preferred supplier list and that they qualify to submit a formal response when the RFPs are sent to the short list. Denel have been demonstrating its capabilities and responding to technical and commercial Q&A to stay back on the potential supplier lists, developing localisation models to qualify to bid, planning for mandated in-country demonstrations to qualify to bid. The brand has recovered tremendously over the last year where the high priority campaigns are in excess of R26bn. The first of these high priority orders was received in January / February this year (Spares for the UAE), and the first major order (Oman G6 Upgrades R2b) is in final negotiation stage. All of these planned efforts are aimed at increasing revenue.

Denel management is engaging the shareholder to unlock the Recap funds in the short term to fund working capital to support the Operations. There is a drive to expedite existing contracts swiftly to maximise profitability and turn-around of cash in the business. Management is also focused on strengthening internal controls throughout the business and to contain costs in order to reduce losses.

Based on the group's current trading position and forecasts and facilities in place together with management's plans above, the directors believe that the group will be able to comply with its financial covenants and be able to meet its obligations as they fall due, and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis. These financial statements therefore do not include any adjustments that would result if the going concern assumption was not used as the basis for the underlying preparation of the financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

43. POST BALANCE SHEET SUBSEQUENT EVENTS

Funding

Denel Medical Benefit Trust

As part of Denel's employee benefit programme, Denel provided post-retirement medical fund contributions to qualifying retirees, who are former employees originally appointed to their roles before 1 April 2000 (the "scheme"). The subsidies are paid from a trustee-administrated trust referred to as the Denel Medical Aid Benefit Trust (the "Trust"), which was established by Denel in 2002. The Trust was established with the sole objective of administering and distributing funds to medical schemes of qualifying beneficiaries. Based on the actuarial valuations, the Trust is in a net asset position therefore Denel approached the courts to request amendments to the trust deed allowing it to ultimately access the surplus. On February 2022, the courts granted Denel the proposed amendments and a distribution was made to Denel in July 2022.

Government step in for repayment of capital and interest on DMTN notes

As at 31 March 2021, Denel had R2.9bn current liabilities that were part of its Domestic Medium Term Note programme guaranteed by the government. Due to its liquidity constraints, Denel was unable to refinance this debt for a longer period therefore approached the government to repay this debt in line with the guarantees issued. These notes were redeemed as per the contractual schedule.

Shareholder announcement for funding

Following Denel submission of its turnaround plan in June 2022, in October 2022, the Shareholder announced its intention to recapitalise Denel by R3.4bn subject to the implementation of the sale of non-core assets. As at 31 March 2023, Denel received the R3,4bn funding subject to conditions. The entity was initially provided access to R1,8bn of the funds and the remainder will flow upon execution of the sale of non-core proportionally.

JSE Delisting of DMTN programme

Figures in Rand million	Group			Company		
	2021	2020	2019	2021	2020	2019

Following the delisting of its remaining note on the DMTN programme, Denel applied and received an approval to delist its DMTN programme from the Johannesburg Stock Exchange on 02 November 2022.

Governance

Disposal Gear Ratio a division of Denel Vehicle Systems (Pty) Ltd

Denel Vehicle Systems (Pty) Ltd was acquired by Denel in 2015 from BAE Systems and DGD Technologies. Denel Gear Ratio is a trading business unit within Denel Vehicle Systems (Pty) Ltd.

As part of its turnaround and funding strategy, and in line with Denel's group objectives, Denel has identified the need for the re-alignment and consolidation of the Denel Landward business and measured the various areas of its business against the accepted criteria for the determination of core / non-core businesses. Denel Gear Ratio meets none of the identified core criteria, resulting in the decision to exit Denel Gear Ratio .

As part of its turnaround and funding strategy, and in line with Denel's group objectives, Denel has identified the need for the re-alignment and consolidation of the Denel Landward business and measured the various areas of its business against the accepted criteria for the determination of core / non-core businesses. Denel Gear Ratio meets none of the identified core criteria, resulting in the decision to exit Denel Gear Ratio. In terms of section 54(2)(d) of the Public Finance Management Act 1 of 1999 ("PFMA) Denel submitted a request for approval from its Shareholder in October 2022 and received approval in December 2022. As at 31 March 2023, the funds have not yet flown.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

43. POST BALANCE SHEET SUBSEQUENT EVENTS (CONTINUED)

Denel Aerostructures SOC Ltd liquidation order

An international company which had a manufacturing and supply contract with Denel Aerostructures (DAe, a subsidiary of Denel) filed an application for the liquidation of Denel Aerostructures. The application flows from Denel Aerostructures' failure to settle a damage claim of about \$4.8m arising out of the termination of the manufacturing and supply contract. Despite Denel Aerostructures having reached a settlement agreement for the payment of the claim, Denel Aerostructures defaulted on the payment plan. Owing to lack of a defence to the claim and the inability to offer any payment plan to avoid the liquidation application. Denel Aerostructures was not in a position to submit an intention to defend the court application. On 12 July 2021, DAe received a notice of set down date of 26 July 2021. Provisional liquidation order was granted with the matter set down for a final liquidation order for the 2 November 2021.

The company has since obtained a court order placing the company under liquidation in November 2021.

Saab and SME Infratech liquidation application

In May 2021, Denel Land Systems (a Division of Denel SOC Ltd), was served an application to liquidate by SAAB in relation to amounts owed to then in relation to work in progress incurred on a project. Denel has lodged an application to defend this matter. Consequently, the parties entered into a payment plan which Denel has honoured in full. The matter has since been removed from the court roll following an out of court settlement agreement.

SME Infratech applied to court to join the proceedings as a co-applicant and the parties are attending to the exchange of pleadings. Denel does not oppose the joinder but opposed the application on the merits of the claims and the order the applicant is seeking. Denel and SME Infratech reached a settlement agreement and the litigation has been suspended subject to Denel complying with the agreed payment plan.

Operations**Non-payment of salary and related payments**

Figures in Rand million	Group			Company		
	2021	2020	2019	2021	2020	2019

Since April 2020, Denel had been unable to pay full salaries to its employees, pension fund contributions and other statutory obligations. During the course of FY2021, FY2022 and FY2023 Denel had received several court orders and writ of executions in respect of outstanding salaries to its employees. In July 2022, Denel was able to pay outstanding salaries to all its employees and pension fund contributions. Denel is currently honouring a payment plan submitted to SARS for amounts outstanding.

Guarantees

A client has called an advance payment guarantee of EURO 2 654 539 on 31 December 2021

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

44. IRREGULAR, FUTILESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure

Opening balance prior period error	169	136	-	163	133	-
Prior period adjustment	(89)	-	-	-	-	-
Fruitless and wasteful expenditure - relating to prior year	-	4	3	(86)	4	4
Fruitless and wasteful expenditure - relating to current year	17	29	-	12	26	-
Less: Amount resolved	-	-	139	-	-	135
Less: Amounts transferred to receivables for recovery	-	-	(6)	-	-	(6)
Fruitless and wasteful expenditure awaiting resolution	97	169	136	89	163	133

Analysis of current year's fruitless and wasteful expenditure

Interest and penalties charged	1	26	57	1	24	53
Penalties on late deliveries and late payments Regulatory and statutory compliance	13	4	79	7	3	79
	3	3	-	4	3	-
Fruitless and wasteful expenditure awaiting resolution	17	33	136	12	30	132

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

45. IRREGULAR EXPENDITURE

Opening balance at 1 April	944	1 901	2 553	-	1 554	1 339
Add: Irregular expenditure incurred in prior year	1	-	-	-	-	-
Deviations from the procurement process not adequately approved	1	-	-	-	-	-
Tax clearance certificates not obtained	-	-	4	-	-	4
Add: Irregular expenditure incurred in the current year	37	-	22	-	-	-
Suppliers not registered on the central supplier database	-	10	35	-	10	35
Bids not adequately approved	-	17	6	-	11	5
Contract extension not adequately approved	-	-	3	-	-	3
Deviations from the procurement process not adequately approved	9	-	-	-	-	-
Evaluation criteria not adequately specified or applied	-	-	7	-	-	1
Inadequate deviation process followed	-	-	84	-	-	59
Insufficient quotes acquired	-	3	19	-	3	19
Limitation of Scope - Information not available	-	14	44	-	9	35
Local content and designated products not catered for	-	-	5	-	-	19
No Competitive bid process	-	2	1	-	2	1
Procurement done without following a prescribed / compliant process	-	-	20	-	-	1
R500k or R1m open tender threshold not adhered to	-	9	43	-	-	20
Tax Clearance Certificates on Foreign as well as local suppliers	-	111	22	-	2	(18)
Supplier with the highest points not selected	-	2	1	-	2	1
Contracts not signed	-	6	5	-	-	2
Suppliers in the service of the state	-	119	27	-	109	27
Add: Irregular expenditure identified by the external auditors	-	-	2	-	-	2
The Appointment of the Bid Evaluation Committee and Adjudication Committee	-	-	1	-	-	1
Contract extension not adequately approved	-	119	23	-	109	23
Irregular expenditure as at 31 March	983	3 194	2 901	505	1 702	1 554
	-	-	-	-	-	-

PART 5

INFORMATION
SERVICE



GLOSSARY

ACRONYM	FULL DESCRIPTION
ACI	African, Coloured and Indian
AGM	Annual General Meeting
Airbus	Airbus DS Optronics (Pty) Ltd
AMD	South African Aerospace, Maritime and Defence Industries Association
Armcor	Armaments Corporation of South Africa
B-BBEE	Broad-based Black Economic Empowerment
Board	Denel Board of Directors
BPLWD	Black people living with a disability
BYO	Black youth owned
Capex	Capital expenditure
CEO	Chief Executive Officer
CFC	Controlled foreign currency
CFO	Chief Financial Officer
CHF	Swiss Franc
Companies Act	South African Companies Act, No. 71 of 2008
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COVID-19	Corona Virus Disease 2019
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CSH	Combat support helicopter
CSR	Corporate Social Responsibility
DD	Denel Dynamics
DDG	Deputy Director-General
Dekra	German Motor Vehicle Inspections Association
Denel Asia	Denel Asia LLC
Denel OTR	Denel Overberg Test Range
DG	Director-General
DHET	Department of Higher Education and Training
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMTN	Domestic Medium Term Note

ACRONYM	FULL DESCRIPTION
DoD	Department of Defence
DPE	Department of Public Enterprises
DSSB	Defence Services Sdn Bhd
DTA	Denel Technical Academy
DVS	Denel Vehicle Systems (Pty) Ltd
EBIT	Earnings before interest and taxation
ECL	Expected credit loss
EE	Employment equity
ERW	Explosive Remnants of War
EUR	Euro
EXCO	Group Executive Committee of Denel
FIFO	First-in-first-out
G4	Sustainability Reporting Guidelines
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GDP	Gross domestic product
Government	South African government, unless otherwise stated
Hensoldt	Hensoldt Optronics (Pty) Ltd, previously known as Airbus DS Optronics (Pty) Ltd (Airbus)
HR	Human resources
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICT	Information and Communication Technology
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Intellectual Property
IR	Integrated Reporting
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information Technology
Kg	Kilogram
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016

ACRONYM	FULL DESCRIPTION
kWh	Kilowatt-hour
L	litres
LAAD	Latin American Defence and Scanty
LMT	Land Mobility Technology (LMT) Holdings SOC Ltd (RF)
Merseta	Manufacturing, Engineering and Related Services Sector Education and Training Authority
MRO	Maintenance, Repair and Overhaul
MTH	Medium transport helicopter
NADCAP	National Aerospace and Defence Contractors Accreditation Programme
NCACC	National Conventional Arms Control Committee
NDIC	National Defence Industry Council
OCI	Other comprehensive income
OEM	Original Equipment Manufacturer
OHS	Occupational health and safety
OMC	Olifant Manufacturing Company
OTR	Overberg Test Range
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, no. 1 of 1999
PMP	Pretoria Metal Pressings
PR&T	Personnel, Remuneration and Transformation
(Pty) Ltd	(Proprietary) Limited
PWD	People with disability

ACRONYM	FULL DESCRIPTION
R&D	Research and Development
R/Rand/ZAR	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
Rm	South African Rand million
S&E	Social and Ethics
SAAF	South African Air Force
SA Army	South African Army
SADI	South African Defence Industry
SANDEF	South African National Defence Force
SANSA	South African National Space Agency
SAPS	South African Police Service
SARS	South African Revenue Services
SCM	Supply chain management
Shareholder	South African government
SIU	Special Investigating Unit
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
t	tons
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UN	United Nations
USA	United States of America
USD	United States Dollar
VAT	Value-added tax
VSP	Voluntary Severage Package

CORPORATE CONTACT DETAILS

DENEL SOC LTD

Registration number: 1992/001337/30

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ANTI FRAUD AND CORRUPTION

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