TWENTY 17/18

DENEL

INTEGRATED REPORT

ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations and its ability to create value for the period 01 April 2017 to 31 March 2018. 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) to the extent that it has not been disclaimed by the external auditors. It was independently audited by Denel's external auditors Auditor General. The report of the external auditors on the financial statements is included on page 92.

Non-financial information

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

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

REPORT CONTENT

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

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

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit Committee, has taken overall responsibility and accountability for this report. The Board confirms that it has collectively reviewed the report's content and has concluded that the Integrated Report has been presented in accordance to the International <IR> Framework. The Board believes that this report is a balanced and appropriate presentation of the profile and performance of Denel. The Board approved this report on page 89.

Monhla Hlahla
Chairperson

Talib Sadik
Audit Chairperson

INTEGRATED REPORT

TWENTY 17/18

CONTENTS

TWENTY 17/18
INTEGRATED REPORT

PART ONE

PART TWO

PART THREE

PART FOUR

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

PART FIVE

PERFORMANCE REVIEW 48

PART SIX

OUR GOVERNANCE 66

PART SEVEN

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 82

PART EIGHT

INFORMATION SERVICE 216

WHO WE ARE

PART ONE

D

WHO WE ARE

OUR VISION

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, innovative and fit-for-purpose Product / Service offering
- Strong relationships with Partners and Stakeholders

OUR VALUES

PERFORMANCE
We embrace operational excellence

INTEGRITY
We are honest, truthful and ethical

INNOVATION
We create sustainable, innovative solutions

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

ACCOUNTABILITY
We take responsibility for our actions

PERFORMANCE HIGHLIGHTS

ECONOMIC

Revenue
R4.9bn
2017 | R8bn

Cash
R1.3bn
2017 | R2bn

Debt: Equity
3.6:1
2017 | 1.2:1

Borrowings
R3.3bn
2017 | R3.2bn

Net profit/loss
(R1 758m)
2017 | R282m

R&D
R769m
2017 | R609m

TRANSFORMATION

B-BBEE
Level 6
2017 | Level 4

Female appointments
44%
2017 | 51%

ACI * appointments
83%
2017 | 84%

SOCIAL

Skills development
R52m
2017 | R68m

Corporate social investment
R9.4m
2017 | R7.2m

Employee numbers
4 629
2017 | 4 941

Black-owned * spend
R614m
2017 | R816m

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

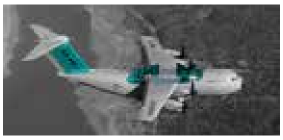
WHO WE ARE

ONE DENEL. ONE VISION. ONE PURPOSE!

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

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

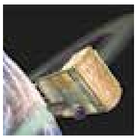
OUR BUSINESS DIVISIONS ARE AS FOLLOWS:


DENEL **AERONAUTICS**

Provides aeronautical solutions that focus on design, development, manufacture, assembly and through-life-support of aircraft and related systems through worldwide partnerships. The company comprises the following core competencies: rotary and fixed wing as well as component maintenance, repair and overhaul (MRO), engineering services, continued airworthiness and system integration solutions, aero and engine MRO, aerostructure and manufacturing. Aerostructure Manufacturing is the largest aerostructures facility in Africa and the first on the continent to be NADCAP accredited across multiple technology disciplines.





DENEL **DYNAMICS**

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



DENEL **LAND SYSTEMS**

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

DENEL **VEHICLE SYSTEMS**

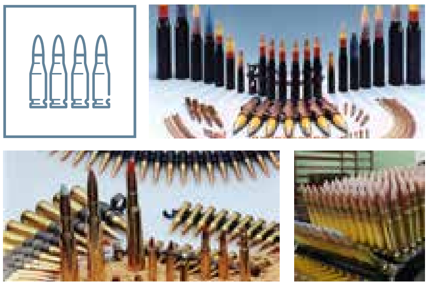
Denel Vehicle Systems (DVS) provides turnkey vehicle systems to military and police customers in South Africa and in selected export markets. This includes the design, development and manufacture of mine and improvised explosive device (IED) protected vehicles and wheeled armoured vehicles. It covers all disciplines of the military vehicle spectrum, including conceptualisation, design and development, manufacture and production, and in-service support. The Gear Ratio business unit products include power shift transmissions, axles, transaxles, torque converters, transfer gearboxes, wheel stations, traction gears and powerpacks, which are used in special on- and off-road vehicles, mining and earthmoving equipment, military vehicles, traction locomotives and industrial machinery. The expertise provided by the Mechatronics business unit include fire directing systems (FDS), remotely controlled turrets, weapon stations, fire control subsystems (FCS), shooting training systems and related products.

LMT SOC LTD (RF)

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

DENEL **OVERBERG TEST RANGE**

Denel Overberg Test Range is a versatile test range specialising in in-flight systems performance measurements for the local and international defence and aerospace industries. Its spectrum of services range from tests of short-range guided munitions for land, sea and air combat, to 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 the military and police forces, and to the hunting and sporting fraternities around the world, for more than 80 years.

DENEL **SOVEREIGN SECURITY SOLUTIONS**

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

CHAIRPERSON'S REPORT

I want to thank the Board of Directors, the Auditor General, our shareholder Minister and the Department of Public Enterprises for their support in achieving a productive six months tenure of the Board.

The current Board of Directors was appointed on the 8th April 2018. This took place shortly after the financial year-end on the 31st March 2018. In terms of the Public Finance Management Act (PFMA), Denel was required to immediately conclude the external audit process and issuing of audited financial statements within set time frames, while implementing a shareholder approved Corporate plan for the years 2019 to 2021.

This effectively meant that the new Board had to review, and issue audited financial statements reflecting on a period prior to its appointment. In addition, the Board had to review the existing corporate plan approved by the previous board, to ensure that it accommodates the changes that would have taken place in the Company. These changes included the change of external Auditors from Nkonki (Pty) Ltd to the Auditor General, a process which is governed uniquely to ensure the effectiveness of the external audit process standards of the Auditor General.

I want to thank the Board of Directors, the Auditor General, our shareholder Minister and the Department of Public Enterprises for their support in achieving a productive six months tenure of the Board. We were able to achieve credible numbers and financial statements and a roll-over of guarantees for Denel's significant debt programme. These have been achieved thanks to the depth of business acumen, governance experiences and commitment to the country displayed by all parties. Ke a leboga, I thank you on behalf of all stakeholders.

STATUS OF THE BUSINESS IN APRIL 2018

When we took over as a Board, Denel showed signs of deep distress with some of the following indicators:

WORKING CAPITAL/LIQUIDITY

- Unresolved near-term debt maturities
- Declining free cash flow
- Contracting supplier terms
- Increase in outstanding accounts payable,
- Inability to progress and conclude projects with a high and increasing fixed cost structure
- Contracting Government support
- Heavy reliance on debt

- Inability to pay salaries, a few months after receiving Government guarantees to raise liquidity

PROFITABILITY

- Poor contract negotiation and management
- Order book lacking consistency
- Poor productivity
- High levels of inefficiency
- Over investment in working capital
- Loss of credibility with key stakeholders and debt providers

MANAGEMENT, LEADERSHIP AND GOVERNANCE

- Lack of transparency and accountability
- Lack of consequence management
- Evidence of mismanagement and lack of focus
- Weak and poor compliance culture

PRIORITIES FOR THE FIRST SIX MONTHS AFTER APPOINTMENT

In the light of the prevailing situation the Board prioritised the survival of Denel. It took steps to get control of the key drivers of the business, and to raise cash to support long term borrowings and short-term business growth imperatives. In this regard, it is critical that the Board ensured a capable management and leadership to enhance the credibility of the business, and to focus on a practical turn-around plan to be approved by the Shareholder by the end of the year.

BELOW ARE SOME OF THE KEY OUTCOMES FROM THE ACTIONS THE BOARD UNDERTOOK:

It established the following Board Committees to strengthen oversight of key governance areas:

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

It accepted the resignation of the former Group Chief Executive Officer (GCEO), Mr Zwelakhe Ntshepe in May 2018. A replacement candidate for the new permanent Group CEO of Denel SOC will be announced during November 2018.

It placed the Group Chief Financial Officer (GCFO) under suspension due to various allegations of mismanagement.

An external candidate will be announced in November to serve as Acting Group CFO to build a credible and capable finance division while executing the governance turnaround plan for Denel.

It removed the Central Executive Committee (CEC) from the internal governance structure, to flatten the structure and improve accountability and transparency of the Group Executive Committee (EXCO).

It started a strategy review process which prioritises a short term turn around plan to be approved by the shareholder at the end of November 2018.

> The first priority of the Board was to restore Denel's reputation and rebuild the credibility of its leadership with stakeholders. The Board is in the process of creating a governance framework underpinned by clear accountability and aligned to best business practice.

The turnaround action plan will:

- Enhance the efficiency of operations
- Improve productivity
- Grow and convert our profitable order book into revenue
- Reduce fixed costs
- Improve profitability of contracts
- Improve the control environment
- Improve compliance
- Build confidence with key internal and external stakeholders
- Build a strong management and leadership to turn around the business
- Stabilise and strengthen the balance sheet
- Build strategic partnerships similar to Rheinmetall Denel Munitions (RDM)
- Be a reliable supplier to the Department of Defence and all our customers

In conclusion, it would be remiss of me not to once more express our hurt and sadness on the tragic incident on 3 September 2018 at Rheinmetall Denel Munitions where eight of our colleagues lost their lives. The Board, Management and staff of Denel remain deeply saddened by the tragic incident and wish to remember the colleagues who lost their lives while contributing to our business and the economy of South Africa:

- Bradley Tandy, 19
- Jason Hartzenberg, 22
- Triston Lance Davids, 22
- Jamie Lesley Haydricks, 24
- Thandolwethu Mankayi, 27
- Mxolisi Sigadla, 40
- Nico Angelo Samuels, 41
- Stevon Robert Isaacs, 51

May their precious souls rest in eternal peace.

APPRECIATION

On behalf of the Board I wish to thank the following key stakeholders, without whom Denel would not be a diamond in the rough:

The Minister of Public Enterprises, Mr Pravin Gordhan; the Minister of Defence and Military Veterans, Mrs Nosiviwe Mapisa-Nqakula and her deputy, Mr Kebby Maphatsoe. The DG of the Department of Public Enterprises, Mr Thuto Shomang and his team for the support. The support from the Armscor Board of Directors and Executives of Armscor, the Association of Maritime and Defence Industries of South Africa (AMD) and all key players within the South African defence industry is acknowledged and greatly appreciated. We extend a hand of gratitude also to the National Treasury and the community of debt providers and banks that continue to give us an ear, and, in some instances, support Denel through various funding instruments. Finally, the Board is grateful for the engagements and support the Denel employees and organised labour have demonstrated to us since the Board took office in April.

Monhla Hlahla
Chairman of the Board of Denel SOC

BOARD OF DIRECTORS

MS MONHLA HLAHLA (55)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR & CHAIRPERSON

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the Board, member of the personnel, remuneration and transformation committee and member of the social and ethics committee

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

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

MR MICHAEL L KGOBE (49)

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

GROUP CHIEF EXECUTIVE OFFICER (Acting) and EX OFFICIO DIRECTOR

Appointed to the group executive committee in March 2010 and acting group chief executive officer with effect 15 May 2018

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

DIRECTORSHIPS: Executive Director of Denel Aerostructures SOC Ltd

VALUE ADD TO THE BOARD: Leadership, strategic planning and implementation, policy formulation, professional practice and ethics, organising and planning, presentation and communication, research and report writing, project planning and management, negotiation skills

MR ODWA MHLWANA (41)

NDip (Internal auditing), BCompt, BCompt (Hons), CA (SA)

GROUP CHIEF FINANCIAL OFFICER and EX OFFICIO DIRECTOR

Appointed as group chief financial officer with effect 1 November 2017

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

DIRECTORSHIPS: Executive director Mhlwana & Associates. Non-executive Director of Rheinmetall Denel Munitions (RF) Ltd, Tawazun Dynamics LLC, LMT Holdings (RF) Ltd and alternate director Hensoldt Optronics (Pty) Ltd

VALUE ADD TO THE BOARD: Finance, auditing, management, corporate governance and strategy formulation

MRS GLORIA TOMATO SEROBE (59)

B.Com Degree and Masters of Business Administration (MBA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the risk and finance committee and member of the Audit Committee

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

VALUE ADD TO THE BOARD: Finance and business leadership

MR NHLANHLA RIGNEY KUNENE (65)

LLB Degree and a Certificate Programme in Industrial Relations

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DIRECTORSHIPS: Non-executive director at 3C Telecommunications, Cell C (Pty) Ltd, CellSAF, Grintek Ewation, Alcatel Lucent, OB Investments and founder and chief executive officer of Kunene Finance and Kunene Industrial Holdings

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

PROF TSHILIDZI MARWALA (46)

PhD in Computational Intelligence in Engineering System, Master's of Engineering and Bachelor of Science

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the social and ethics committee and member of the personnel, remuneration and transformation committee

DIRECTORSHIPS: Non-executive director at Resolution Circle and EOH Holdings

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

DR SIBUSISO SIBISI (63)

PhD and BSc (Physics) of Science and Technology

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the risk and finance committee and member of the audit committee

DIRECTORSHIPS: Non-executive director at Liberty Holdings

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

LIEUTENANT GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA (65)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the social and ethics committee

DIRECTORSHIPS: Non-executive director of NT (MPAT)

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

MS SUE RABKIN (70)

BA Hons in English and Education

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the audit committee and social ethics committee.

VALUE ADD TO THE BOARD: Industry knowledge and technical

MR TALIB SADIK (52)

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

He served as GCEO of Denel between 2008 and 2012

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the audit committee and member of the risk and finance committee

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

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

MR THAMSANQA MAGAZI (60)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the personnel, remuneration and transformation committee

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

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

MS NONZUKISO (ZUKIE) SIYOTULA (34)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the audit committee and member of the personnel, remuneration and transformation committee

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

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

MR MANDLA MARTIN MNISI (37)

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 (confirmed by cabinet 24 May 2018)

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the risk and finance committee and the social and ethics committee

DIRECTORSHIPS: Director - MNS Attorneys

VALUE ADD TO THE BOARD: Legal and business leadership

GENERAL (RETIRED) SIPHIWE NYANDA (65)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the risk and finance committee and member of the social and ethics committee

DIRECTORSHIPS: Director of Gen S Nyanda Consulting and Oasis Media

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

DR HANNELIE NEL (46)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the risk and finance committee and memeber of the personnel, remuneration and transformation committee

DIRECTORSHIPS: Managing Director of Tennelli Industries

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

MS KABELO LEHLOENYA (38)

B. Com (Accounting), B. Comm. Hons (Accounting), Post Graduate Diploma in Accounting Sciences, CA (SA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 24 May 2018

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the risk and finance committee

VALUE ADD TO THE BOARD: Skills in budgeting; financial reporting, risk management and stakeholder engagement

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL

MR MICHAEL L KGOBE (49)

GROUP CHIEF EXECUTIVE OFFICER (Acting) & EX OFFICIO DIRECTOR

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

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

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

Appointed to the group executive committee in March 2010 and acting group chief executive officer with effect 15 May 2018

ODWA MHLWANA (41)

GROUP CHIEF FINANCIAL OFFICER

NDip (Internal auditing), BCompt, BCompt (Hons), CA (SA)

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to the Board

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Finance, auditing, management, corporate governance and strategy formulation

Appointed as group chief financial officer with effect 1 November 2017

DR THULANI MAHLINZA (59)

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION (Acting)

BCom (Business Management & Industrial Psychology), Post Grad (Human Resource Management), BCom (Hons), Denel Advanced Executive Leadership Programme, (MBA)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Developing & managing HR strategy, human capital development, talent management & retention, personnel/ remuneration board sub–committee, transformation/personnel development board sub–committee, leadership

Appointed as Executive Human Resources Manager Denel Land Systems in 2005 to date and appointed as acting group executive Human Resources & Transformation in June 2018

THEO KLEYNHANS (57)

GROUP EXECUTIVE: STRATEGY

BEng (Electronics), MBL, Executive leadership programme.

DIRECTORSHIPS: Chairman of Denel Vehicle Systems (Pty) Ltd; Non-executive director of Pioneer Land Systems (LLC)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Engineering, operations and business management and executive leadership

Appointed to the group executive committee in August 2017

THAMSANQA MBELE (51)

GROUP CHIEF OPERATIONS OFFICER

MBL, Master's in Engineering Management (MEM), attended various executive leadership programmes

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to risk and finance committee and social and ethics committees

DIRECTORSHIPS: non-executive director of Denel Aerostructures SOC Ltd & Hensoldt Optronics (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategy and business management, programme management, operations management

Appointed to the group executive committee in April 2016

VUYELWA QINGA (54)

GROUP EXECUTIVE: COMMUNICATION AND PUBLIC AFFAIRS

BJournalism and media studies, management development programme

DIRECTORSHIPS: Council member of UP, director of Cygniline (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Strategic leadership, corporate communication, media relations, image and reputation management and stakeholder engagement

Appointed to the group executive committee in May 2013

THEMBA ZWELIBANZI (54)

GROUP EXECUTIVE: RISK AND COMPLIANCE MANAGER

BCom, Advanced programme risk management, Diploma (Human Resources), Graduate Diploma (Company Direction)

DIRECTORSHIPS: Permanent invitee to the audit committee and social and ethics committee, trustee of DMBT, AMD Arms Control work group member, council member of SACCI, Densecure SOC Ltd board member

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

Appointed as risk and compliance manager in June 2006

ORATILE MOTHUDI (35)

GROUP EXECUTIVE: CHIEF AUDITOR EXECUTIVE

BCom Honours in Accounting Sciences, Chartered Accountant (SA)

DENEL BOARD COMMITTEE MEMBERSHIPS: Permanent invitee to audit committee and risk and finance committee

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Strategic leadership, internal audit, external audit and risk management

Appointed to the group executive committee in September 2017

DENNIS MLAMBO (61)

GROUP EXECUTIVE: SUPPLY CHAIN

BCom, Diploma (Production Management), certified balanced scorecard specialist, SHEQ Training, Executive Management Training.

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Business processes design and optimisation, strategy formulation and implementation, supply chain management, corporate governance and risk and business management.

Appointed as group supply chain executive in October 2012

VUYOKAZI XAXA (47)

GROUP COMPANY SECRETARY

B. Iuris, LL.B., post-graduate diploma in Cyberlaw, Executive Leadership Development Programme

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
General law advisory, in particular corporate law, compliance, corporate governance, business management, strategic leadership

Appointed to the executive committee in June 2017

DENEL BUSINESS ENTITIES' CHIEF EXECUTIVE OFFICERS

ISMAIL DOCKRAT (48)

CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS (Acting)

MBA, NDip (Electronics Eng), Certificate (programme management)

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

Appointed as acting chief executive officer in Feb 2018

VICTOR XABA (38)

CHIEF EXECUTIVE OFFICER: DENEL AERONAUTICS (Acting)

Bachelor's Degree in Quality, National Diploma in Chemical Engineering, Project Management Diploma and Executive Management Development Programme

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:
Project management, strategic and business management, business development, stakeholder relations, legal and compliance, communications and public relations

Appointed as acting chief executive officer in May 2018

HUGH PETERSEN (48)

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS (Acting)

M.Eng (Electrical and Electronic), B.Eng (Electrical), PG Cert (LSA) Portsmouth UK, EDP (Unisa SGBL)

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

Appointed as acting chief executive officer in June 2018

PHALADI PETJE (51)

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

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

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

Appointed as chief executive officer in May 2013

MXOLISI MAKHATINI (46)

CHIEF EXECUTIVE OFFICER: DENEL VEHICLE SYSTEMS AND LMT

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

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

Appointed as chief executive officer in September 2017

Appointed as LMT acting chief executive officer in May 2018

ABRIE VAN DER WALT (59)

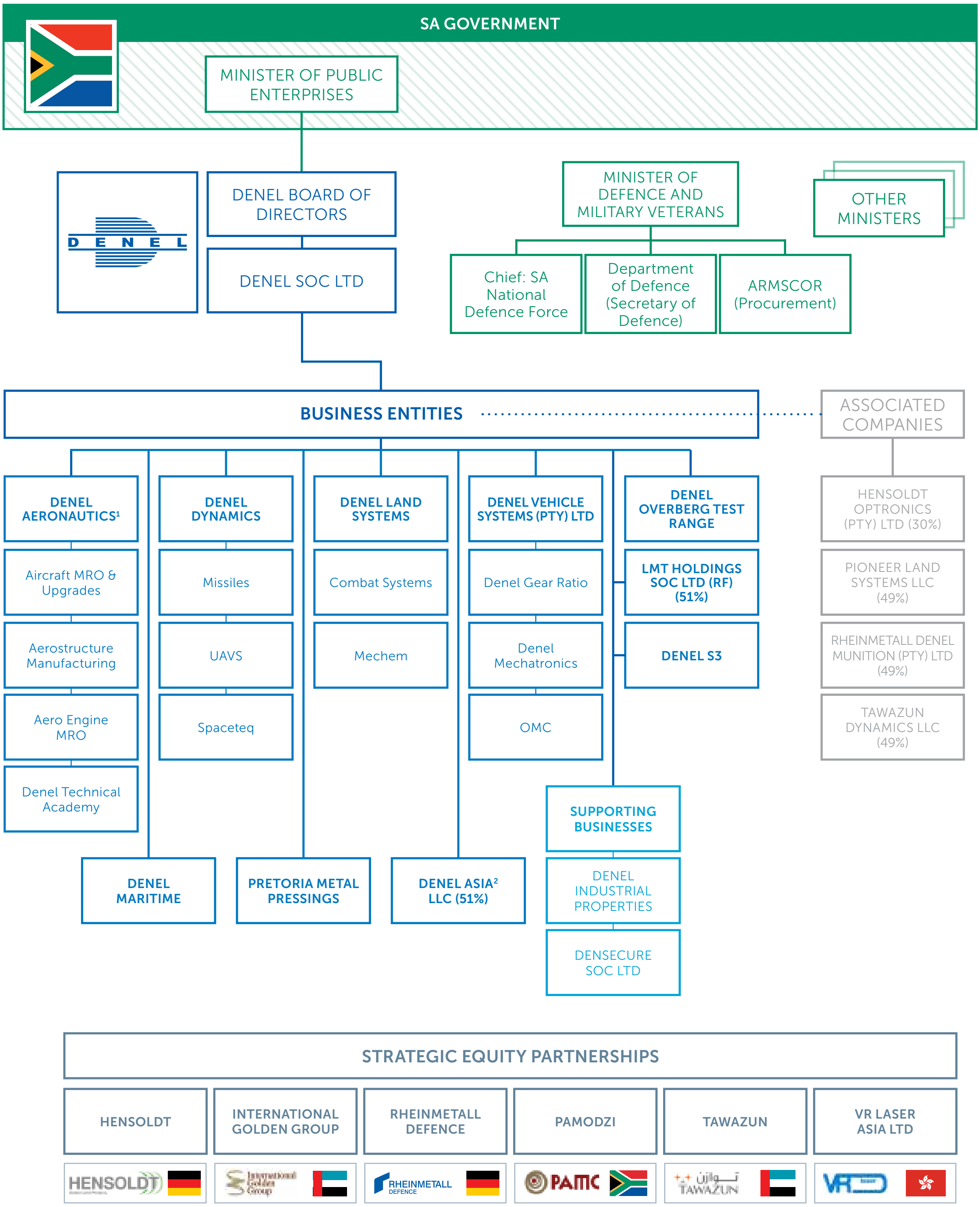
CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

MSc (Computer Science), executive leadership programme

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

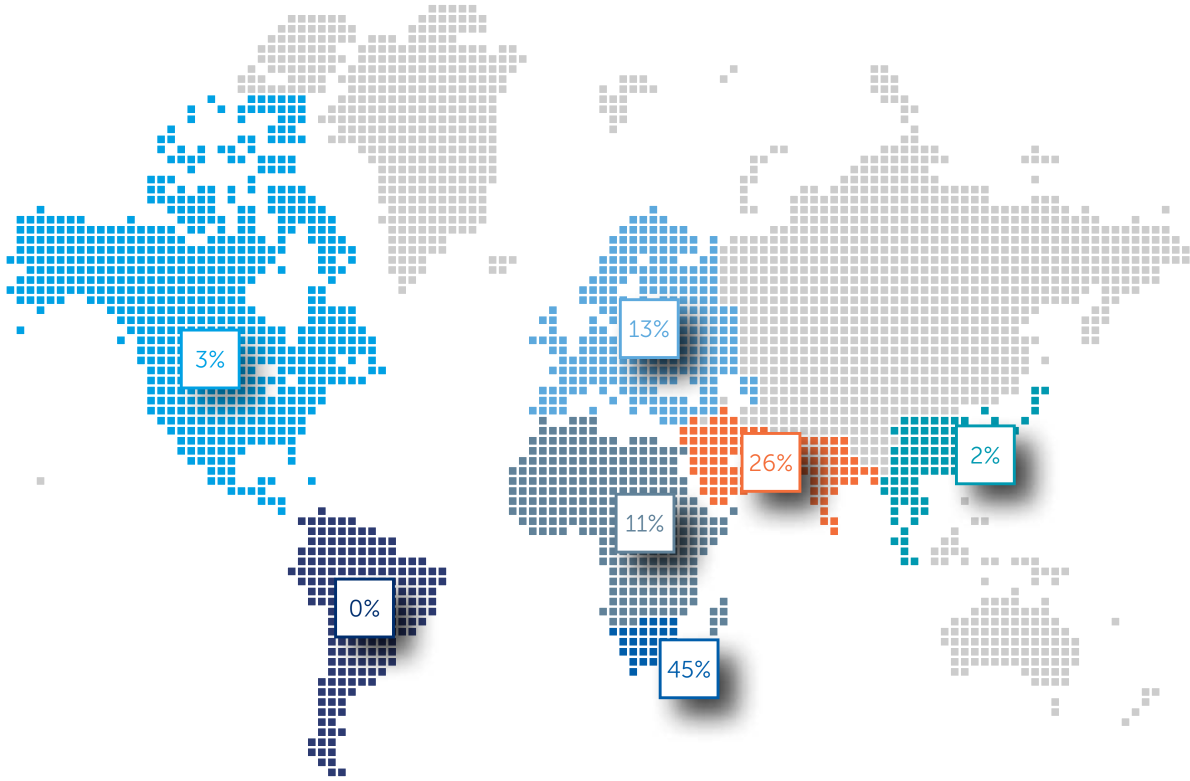
Appointed as chief executive officer in December 2005

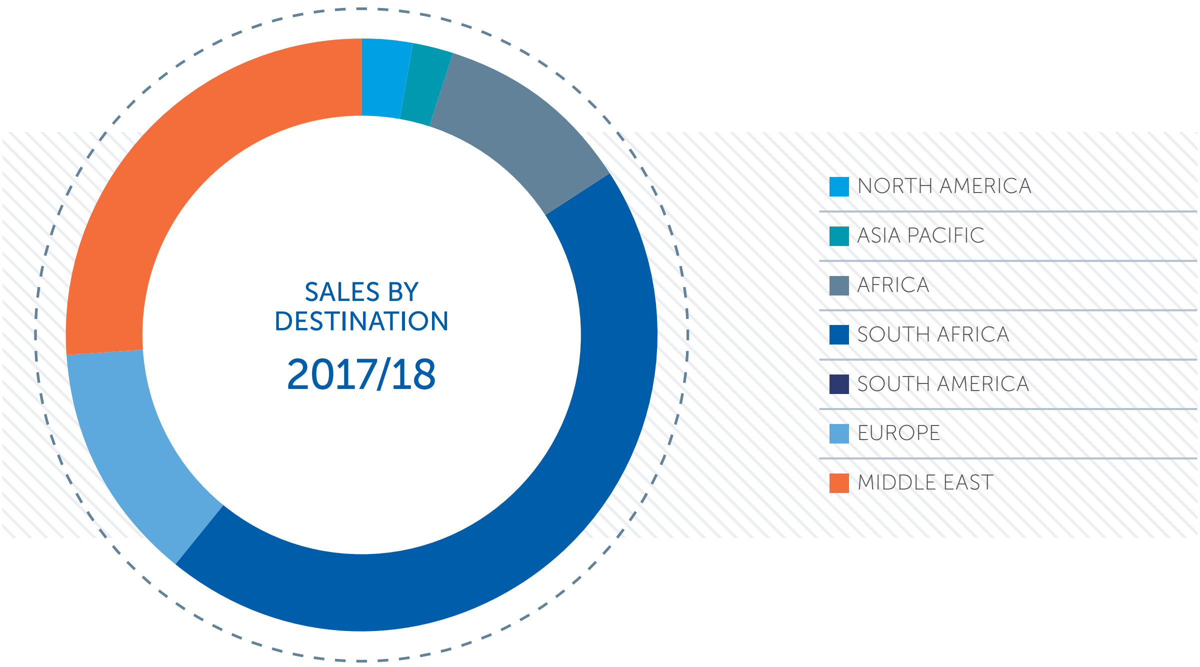
ORGANISATIONAL STRUCTURE



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

OUR GLOBAL PRESENCE





BUSINESS MODEL

CAPITAL INPUTS

INTELLECTUAL	HUMAN	FINANCIAL	NATURAL	SOCIAL AND STAKEHOLDER ENGAGEMENTS
▪ Internally developed systems R&D ▪ Unique customer solutions ▪ Skilled and technologically qualified employees	▪ Effective and responsible leadership ▪ Developing skills ▪ Transformed skills workforce ▪ Retaining key talent	▪ Profitability ▪ Order book quality and growth ▪ Source appropriate funding ▪ Access to funding ▪ Cash flow efficiency and working capital management	▪ Energy needs for manufacturing	Effective engagements to: ▪ Employees and trade unions ▪ Shareholder and funders ▪ Customers and suppliers ▪ Government and regulators

ACTIVITIES

CONCEPTUALIS-ATION	RESEARCH AND DEVELOPMENT	BIDDING AND CONTRACTING	DESIGN AND DEVELOPMENT	MANUFACTURING, AND INTEGRATION	SERVICES,SUPPORT AND UPGRADE
Identifying customer needs	Innovative technological advancements	Scoping and contracting	Developing cutting edge technologies	Manufacturing, maintenance, assembling, integration and testing	Delivery, product support and warranty

OUTPUTS

PRODUCTS | SERVICES | SOLUTIONS

OUTCOMES

R&D spend
R769m

R2.4bn
paid remuneration

Skills development
R52m

Level 6
B-BBEE

Sustained strategic capabilities

4 629
employees

Responsible leadership

Corporate social investment
R9.4m

R1 758m
loss

R4.9bn
revenue

Cash and cash equivalents
R1 269m

Order pipeline
<R40bn

Positive relationship with **organised labour**

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

CREATING VALUE FOR OUR STAKEHOLDERS

PART TWO

CREATING VALUE FOR OUR STAKEHOLDERS

HUMAN CAPITAL

Denel as a state-owned enterprise and a leading defence industry player is required to take a lead in the transformation of this sector by facilitating the inclusion and development of black people and women to be full participants. Denel is always cognisant of the role it needs to play to contribute meaningfully to the developmental agenda of the government of South Africa.

FOCUS AREAS

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

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

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

WORKFORCE CAPABILITY
Ensure that current and future skills requirements are identified and developed

As a proud South African public company Denel contributes greatly towards talent building and nurturing. The company's strategy on talent building and management planning is aligned to its purpose statement and business strategy.

Denel invests a total of 2% of its annual payroll costs towards training and development, as well as talent management interventions. The delivery of high-tech programmes and projects, as well as complex production schedules and models are enabled through investment in the sound technical training of apprentices, artisan training offered through the Denel Technical Academy and engineering graduate programmes offered through the Denel Engineering Academies.

The core critical skills for Denel are harnessed in various domains of engineering specialisations including mechanical, electrical, electronics, industrial and systems engineering. Through its dynamic recruitment searching and placement strategies Denel attracts and appoints best in class engineers in these categories which enables the company to execute its extremely complex programmes.

Denel's contribution to the developmental agenda of South Africa is further achieved through the offering of bursaries aligned to the company's core critical skills, internships and experiential training. The company pays serious attention to continuous well-planned, long-term talent building. This ensures that the long-term nature of its programmes – which range from a year to ten-year delivery pipelines – is systematically supported by a concurrent long-term skill planning and pipelining to ensure the retention of critical skills.

Further value is created and added to Denel through well-planned skills transfer programmes, best in class succession planning and mentoring strategies. The processes and interventions that are rolled out contribute significantly to the company's efforts to retain talent, particularly the highly sought-after high-tech engineering resources. Although its training efforts are primarily aimed at building and sustaining the company's skills and talent base Denel is also proud of its contribution to the country's broader skills base and its developmental agenda. Some of the graduates that have been trained and developed by Denel are released from their bursary contracts to be employed in the wider industry in South Africa.

Leadership development is a critical element of Denel's approach to ensure the company's strategic objectives, operational plans, intricate programme schedules and contractual deliverables are effectively achieved.

The investment in the development of the leadership cadre takes place through a flagship programme, called "The Trailblazers," which is executed by the Henley Business School. The programme has four levels starting from junior to executive programmes. Leadership delegates are selected from all divisions of Denel.

The unique element in this programme, is the action learning component. As part of the learning process, delegates must complete action learning projects which produce practical and implementable solutions to the business problems and challenges the company is experiencing. The entire programme, from theory to practical implementation, is premised on the Denel business strategy.

Retention of talent is imperative for a state-owned company like Denel and it takes a particular interest in the views and feelings of its employees towards the value proposition of the company. Denel invests significantly in employee engagement surveys, employee perception surveys as well as periodic climate surveys.

The company's retention strategies are further supported by the employee wellness programmes that are offered to all employees and extended to the employees' families.

Denel regards the organised labour that are active in the company as business partners and significant stakeholders. The company has a long-standing collective recognition agreement with Numsa, Solidarity and UASA, signed at Denel group level. Membership to the collective agreement is determined by a threshold of 15%. The recognition of the three unions at Denel group level gives them automatic recognition in all the divisions of Denel.

In addition, trade unions Limusa and Satawu have been given recognition at divisional level, at Denel Land Systems and Denel Aeronautics respectively. The recognition of the two unions at divisional level has brought about a new dynamic in that the company must deal with various unions at different levels. Some 53% of Denel employees belonged to unions at the end of March 2018. Denel has established formal communication, consultation and negotiation forums within the company to emphasise and enhance partnership with all the trade Unions.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Total employees at 1 April 2017: 4941	Whilst spending on training and remuneration may reduce the financial capital, the skills development of our employees is important to provide skilled, motivated and productive employees	Amount paid in wages and salaries R2 399m (2016/17: R2 368m)
Leadership structure		Total headcount 4 629 (2016/17: 4 941)
Positive relationship with organised labour		Artisan trained 249 (2016/17: 177)
		Spend on skills development R52m (2016/17: R68m)

Actions to enhance outcomes

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

SOCIAL CAPITAL

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

Our Vision for the Group's CSI is to build sustainable communities by leveraging off Denel's expertise in science, technology, engineering and mathematics (STEM) to support the country's Human Capital Development strategy. When we provide skills development to the youth, focusing in STEM education and training, we are intentionally and deliberately contributing to the development of the next layer of scientists, engineers, technicians and artisans.

The company's CSI and other socio-economic development programmes are therefore purposely linked to the development of future talent for the Group, and the benefit of the nation.

In the past 10 years, Denel's flagship intervention has been the Schools Outreach Programme (SOP), which operates as an extra-tuition programme during weekends and school holidays. The SOP delivers additional tuition in mathematics, science, English and life science to learners in the beneficiary schools. The programme serves as a feeder to Denel's skills development pipeline and learners who do well in their Matric year become eligible for a bursary to study at either a University or at the Denel Technical Academy (DTA). Operating parallel to the SOP, the DTA provides artisan training at Denel's Kempton Park Campus. The academy delivers technical training, which is in line with the business of Denel as well as the country's requirements for critical and scarce skills. The academy creates a foundation for future employability of young learners, trainees and apprentices. The training is also in line with the National Development Plan (NDP), which is South Africa's roadmap for the further development of the country to eradicate poverty and inequalities by 2030.

The expected benefit of this approach is a marked increase in the number of beneficiaries, more social impacts and greater output in STEM-related careers. With the addition of the training offered by the DTA this initiative will also increase the number of artisans and technicians required to support South Africa's growth and development.

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

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

Our interventions further include donating laboratory infrastructure to impoverished schools, which contribute to the study of science and improves learner performance in this subject. Although the severe liquidity challenges the company was faced with in this financial period also had a negative impact on the group's CSI, the programme touched the lives of at least 430 learners across the country.

SUPPLY CHAIN INTERVENTIONS

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

Whilst the local spend in 2018 (R3bn) has reduced when compared to 2017 (R4.8bn), the percentage spend on black-owned companies has improved by 3% to 30%. The improvement is welcomed as Denel intentionally seeks to create value in the local market. The spend on black / designated group companies improved overall from FY17 to FY18 impacting in particular spend on black woman-owned companies. The enterprise development programme has resulted in over 20 suppliers successfully exiting the programme and five enterprise development (ED) beneficiaries graduating from ED to SD beneficiaries

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Enterprise supplier development	The developmental spend on both the ED and SD must be balanced against the financial capital.	Supply Chain Management system that is focused on national plan to improve inequalities on previously disadvantaged individuals.
CSI programmes that supports Maths and Science learners.	The investment in communities we operate through social investment will reduce the financial capital in the short term but result in growth in this capital in the longer term.	B-BBEE Status Level 6 (2016/17: level 4)
Collaboration with shareholder and funders.		Enterprise development spend R8.2m (2016/17: R11.9m)
		Learners who have benefited from the Schools Outreach Programme 430 (2016/17: 455)
		Contribute to the improvement of math and science knowledge

Actions to enhance outcomes

- Improve the spend on military veterans and black youth through market scan of products and services and revisit the supply chain strategy to increase spend on the programme.
- Expanding the CSI programme to all provinces
- Improve the B-BBEE status levels

ENVIRONMENTAL CAPITAL

The group's business delivers a positive impact on the country's economic and social development, However, industrial activities in areas where Denel operates might have inherent negative effects on the environment. It then becomes a strategic objective to manage, protect and rehabilitate the environment in conformance with our environmental management policy. We prioritise compliance with all applicable legal requirements.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

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

KEY ENVIRONMENTAL GOALS

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

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

ENERGY AND CARBON EMISSIONS

Denel's ongoing commitment to reduce energy consumption and its carbon footprint is reflected in its continuous investment in mitigation strategies. This is further apparent in the objective to improve energy efficiency and reduce our direct greenhouse gas emission by at least 20% by 2020. By the end of March 2018, we have successfully reduced our electricity consumption by 27.6% in relation to usage recorded during our base-year of 2011/2012 – although the significant reduction is attributed to both energy efficiency improvements as well as a decline in production levels.

Denel is constantly assessing its operations and develop specific objectives and measures to be implemented. As electricity remains the main source of carbon, Denel has implemented an energy management policy that supplements the environmental management programme to address energy efficiency and reduce consumption.

ENERGY EFFICIENCY PROGRAMME

Denel's manufacturing plants require stable and affordable energy in an uninterrupted manner to operate efficiently. Across the group the company continues to pursue an energy conservation project to reduce electricity consumption by 10% through deliberate measures to be more energy efficient.

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

WATER

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

WASTE AND RECYCLING

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

LAND STEWARDSHIP AND NATURE CONSERVATION

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

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Electricity	Impacting negatively by using non-renewable waste and through emissions. We minimize impact through different initiatives indicated above.	Reduced energy consumption 92416475kWh (2016/17: 101 577 961kWh)
Water		Water Consumption 1 166kl (2016/17: 1 313kl)
Actions to enhance outcomes		
▪ Continuing to monitor and achieve the electricity targets ▪ Sustainable water conservation programmes ▪ Improving on-site waste disposal practice		

INTELLECTUAL CAPITAL

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

The tangible IP that Denel holds, together with the intangible skills of experienced and technically qualified employees, supported by required specialist equipment and facilities, are the key inputs in the intellectual capital. This defines the capability of the business.

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

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

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

During development, a challenge may be that the complexity of, or the scope of work, is sometimes underestimated at conceptualisation. This then leads to delays in project deliveries. Denel has developed and adopted a Project Lifecycle Management framework that provides structure and guidance to predetermined 'Gate reviews' associated with the various project life cycles. The framework provides a consistent performance monitoring and control system that integrates all the key activities throughout the whole life of the project from the bidding phase to the support phase. The framework is currently being rolled out on a very large opportunity for an international customer.

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Collaboration with client on new technology development	Investment in the intellectual capital reduces the financial capital in the short term but increases the financial and human capitals in the long term.	Investment in R&D R769m (2016/17: R609m)
Partnership with academic institutions		
Business processes and management systems		Investment in bursary and internship programmes
Skilled and qualified employees		

Actions to enhance outcomes

- Investment in R &D to keep abreast with the latest technology trends
- Providing training and skills development for artisans and engineers

FINANCIAL CAPITAL

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

The inputs to the financial capital are underpinned by access to adequate borrowings and maintaining adequate cash reserves. Denel aims to retain and improve financial strength. To achieve the strategic objective the focus areas in 2017/18 were:

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

KEY INPUTS	TRADE OFFS	VALUE OUTCOMES
Long- and short- term borrowings	The financial capital allows the growth and sustainability of the business and has a positive impact on all the other capitals.	EBIT – (R1461m) (2016/17: R556m)
Cash and cash equivalents		Cash generated from operations - (R716m) (2016/17: R376m)
Share capital and reserves		Cash and cash equivalents -R1269m (2016/17: R2021m)
Actions to enhance outcomes		
▪ Gain investor confidence to retain credit facilities ▪ Improve working capital management processes to retain and generate cash ▪ Review the cost structure to improve shareholder value		

STAKEHOLDER ENGAGEMENT

PART THREE

STAKEHOLDER ENGAGEMENT

STAKEHOLDER ENGAGEMENT

Trust is the most valuable commodity in a company. Over the past three years, trust in the Denel brand and its executive leadership has been eroded due to a number of governance breaches and leadership conduct amid allegations of corruptions and links to state capture. Such allegations and leadership conduct negatively affected most relationships with the Group's stakeholders.

The King IV Report on corporate governance identifies stakeholder engagement as a key aspect for integrated reporting. Further, it is seen as crucial to strategic business and reporting decisions. It further suggests a greater requirement for companies to include stakeholders into decision-making. Good governance and leadership, as well as sufficient resources are required to ensure robust stakeholder engagement processes. The weakened state of governance and leadership at Denel has, therefore, led to an equally weakened stakeholder function which will need to be rebuilt and strengthened.

The image and reputation of Denel, as well as the credibility of its leadership has since 2015 been on a downward spiral within the stakeholder environment, the broader South African public, as well as in both local and international markets. This has had crippling impacts on not only the internal employee environment, the external supplier, customer and industry environments, but also in the banking and financial sectors.

While leadership and governance breaches led to the reputational decline, manufacturing operations were also affected because of the liquidity challenges the business was facing. The weakened relationship with suppliers within this context led to business operations getting negatively affected. The severe cash constraints, balance sheet weaknesses and loss of credibility in the company's management further eroded the brand image and reputation of the company. All these factors combined have unfortunately converged with an increasing reduction in trust in the company by employees, the general South African public as well as key stakeholders including customers.

The focus of the stakeholder engagement function in the next financial year will be on rebuilding and strengthening the Group's Stakeholder Programme. The table below is an overview of the engagement process in the 2017/18 financial period.

STAKEHOLDER

SHAREHOLDER REPRESENTATIVE PARLIAMENT AND OTHER KEY GOVERNMENT DEPARTMENTS

- DPE
- DoD
- Parliament RSA

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Maintaining the shareholder support for Denel's business strategy including marketing support, the regulatory environment and industry participation programmes ▪ Engagement on the state of Denel's finances ▪ Aligning to the shareholder developmental agenda for Denel as articulated in the Shareholder Compact ▪ Government oversight of progress in advancing Broad-Based Black Economic Empowerment, diversity management, skills and enterprise development within Denel ▪ Building and strengthening relationships with government, both as a partner in the development of the country, the Shareholder and as a key client ▪ Governance breaches; leadership conduct and allegations of corruption ▪ Allegations of state capture	▪ Regular scheduled meetings between the Minister and the Board Chairperson. ▪ Senior Officials with Board Members and Executive Directors when necessary ▪ Bilateral and issue-specific meetings between the DPE and Denel's executive management ▪ Regular engagements to report on progress and strategic review of Denel's Shareholder Compact targets with DPE ▪ Participation and visibility of the shareholder in Denel's initiated stakeholder activities, e.g. exhibitions, air shows, gala dinners golf days and hospitality suites ▪ Parliamentary Committees Presentations	▪ Relationships with key stakeholders require to be strengthened through more engagement and alignment. ▪ This process is on-going and will continue into the next financial period.

STAKEHOLDER

PRIMARY CLIENTS AND CUSTOMERS

- Department of Defence
- ARMSCOR
- SAPS

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Adequate support for the operational readiness of the SANDF ▪ To jointly plan and deliver the strategic defence capabilities of the SANDF and the country ▪ Engagement to develop, protect and sustain South Africa's sovereign and strategic defence capabilities ▪ Maintaining support for Denel's business strategy including marketing support, the regulatory environment and industry participation programmes ▪ Building and strengthening relationships with the DoD and ARMSCOR, both as partners in the development of the country and as key clients ▪ To provide input into legislative development processes that will affect the economy including the positioning and role of the South African Defence industry (SADI) in South Africa's economic development	▪ Monthly and weekly issue-driven meetings ▪ Joint planning sessions between Denel and DoD/ARMSCOR ▪ Presentation of Strategic Integrated Programme to the Security Cluster and Council of Defence ▪ Written comments and workshops between the DoD/Armscor and Denel ▪ Attending the Budget Vote of relevant Ministries ▪ Participation and visibility of the DoD/ ARMSCOR in Denel's initiated stakeholder activities, e.g. exhibitions, air shows, gala dinners, golf days.	▪ These relationships also require to be strengthened through more engagement and alignment. ▪ This process is on-going and will continue into the next financial period.

STAKEHOLDER

OTHER GOVERNMENT DEPARTMENTS

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

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Liquidity challenges ▪ Decline of the Department of Defence capital spending ▪ Financial performance of Denel ▪ Denel's challenges ranging from financial and operational sustainability to policy decisions that have an adverse impact on the viability of Denel's operations. ▪ Governance breaches; leadership conduct and allegations of corruption ▪ Participation and visibility in, and being a partner to, the transformation of SA ▪ A clear and defined role that Denel can play in government's developmental agenda and strategic objectives	▪ Regular feedback to the relevant Parliamentary Portfolio Committees ▪ Annual presentation to the Parliamentary Portfolio Committee on Public Enterprises on Denel's results and Shareholder's Compact performance ▪ Presentation of Strategic Integrated Programme to co-ordination structures ▪ Attending Budget Votes of key government departments ▪ Participation in government business delegations both local and International	▪ Some of the key relationships were fractured and remain strained with low levels of trust ▪ Rebuilding the relationship and increasing trust levels is on-going and will continue into the next financial period.

STAKEHOLDER

INDUSTRY PARTNERS AND CLIENTS

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

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
■ Positioning Denel as a custodian of core strategic and sovereign capabilities ■ Engagement to elevate product ranges, services, solutions and new capabilities ■ Engagement to influence policy direction, payments, projects, and new business lobbying ■ Learning through interaction with the industry and cross-sectorial organisations ■ Ways to leverage and build Denel's strategic business partnerships for the maximum benefit of all stakeholders ■ To use business associations as a forum through which we can promote our viewpoints on key industry issues	■ Frequent and structured interaction at monthly meetings with various industry bodies, AMD, NDIC, SADI ■ Monthly meetings with various industry bodies, AMD, NDIC ■ Presentations to various industry bodies, strategic committees, working groups and forums ■ SAAF-Denel Steercom meetings ■ Contributions to broader SA defence industry ■ Client visits to Denel campuses ■ Hosting of foreign delegations and defence attachés	■ These relationships became strained and require to be strengthened through more engagement and alignment. ■ Weakened industry support for the following projects will need to be rebuilt: » Afrika Truck » Hoefyster » Rooivalk » Missile development » SARA industry partners

STAKEHOLDER

SUPPLIERS / CREDITORS

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
■ Engagement with suppliers on the state of the Denel business and its impact on the non-payment of suppliers ■ Liquidity challenges ■ Engagement with suppliers to strengthen relationships, get buy in and support ■ Engagement to encourage responsible practices across Denel's supply chain, B-BBEE, local procurement, supplier conduct and environmental considerations ■ Inclusion of critical suppliers in cross-functional teams to contribute expertise and advice before specifications are developed for products or services ■ Engagement to update and ensure that suppliers are kept abreast of developments and challenges on current projects/ programmes	■ On-going interaction with suppliers and contractors ■ Quarterly supplier information sessions ■ Frequent engagements at divisions ■ Monthly and quarterly meetings ■ Customer-specific operational meetings ■ Industry networking sessions ■ Invitation to Suppliers for the DPE Budget Vote ■ Participation and visibility of suppliers in Denel's initiated stakeholder activities, e.g. Group CEO Awards, exhibitions, air shows, gala dinners, golf days and Denel's hospitality suites	■ Strained relationships due to liquidity challenges and weak communication with the stakeholder community. ■ Some business operations halted due to suppliers' refusal to deliver parts without upfront payment. ■ Process of strengthening these relationships to continue into the next financial year.

STAKEHOLDER

INTERNAL STAKEHOLDER
- Organised labour
- All employees

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Denel Group's liquidity challenges and their impacts on variable pay and salaries ▪ Interventions to achieve long-term resolution of current challenges ▪ Lack of management communication and transparency ▪ Negative media reporting of Denel with allegations of corruption and state capture ▪ Unconfirmed rumours of restructuring some divisions and the entire company ▪ Low employee morale ▪ Providing staff with strategic direction and keep them informed about Denel's activities; more particularly in relation to the new business model ▪ Pace of transformation ▪ Employee training and development	▪ Road shows and site visits by GCEO and senior executives ▪ Regular publications – Denel News ▪ Engagement surveys, emails, intranet communications, info-grams, newsletter ▪ Employee events and celebrations of national days as a Group ▪ Meetings with organised labour and the Senior Leadership Forum	▪ The relationship suffers from reduced levels of trust between management and employees. ▪ Low morale levels in the internal environment ▪ Reduced support for Management interventions ▪ Strained labour relations and reduced productivity levels ▪ Reduced buy-in and support for the Denel Group brand ▪ This relationship also requires to be rebuilt and strengthened through more transparent and trust-based engagements.

STAKEHOLDER

FINANCIAL INSTITUTIONS & INVESTMENT PARTNERS

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Credibility of management ▪ Allegations of corruption and state capture ▪ Government's guarantees to Denel ▪ Liquidity challenges ▪ Denel's performance as affected by the groups restructuring plans and its impact on revenues ▪ Future repositioning of divisions and products ▪ Denel's financial performance	▪ Executive Directors supported by non-Executive Board Directors' engagement with financial institutions, investment partners and the shareholder ▪ Formal engagement at the release of year-end financial results ▪ Frequent and structured local and international road shows ▪ Annual general meeting and other investor meetings	▪ Strained relationship with reduced trust levels ▪ Reduced trust and credibility in management ▪ Lack of tangible support of Denel's liquidity challenges ▪ These relationships also require to be strengthened through more engagement and alignment in the next financial year

STAKEHOLDER

MEDIA ORGANISATIONS / JOURNALISTS

ISSUES	PLANNED ENGAGEMENT METHOD	OUTCOMES
▪ Allegations of corruption and state capture ▪ Liquidity challenges ▪ Credibility of management ▪ Government's guarantees to Denel	▪ One-on-One meetings with Journalists and Editors ▪ Media roundtable with Denel leadership ▪ Denel open days ▪ Media interviews, statements and responses	▪ Strained relationship with reduced trust levels ▪ Reduced trust and credibility in Denel voices ▪ Mistrust of Denel's own alternative narrative ▪ Process of rebuilding will continue into 2018/19 FY

MATERIAL ISSUES

MATERIAL ISSUES

IDENTIFY	PRIORITISE	RESPOND	REPORT AND MONITOR
▪ Issues at divisional exco ▪ Group board meetings ▪ Stakeholder engagements ▪ Risk management	▪ Based on risk and opportunities ▪ Materiality ▪ Impact issue will have on Denel	▪ Identify mitigation actions ▪ Implement actions that will manage material matters	▪ Report at regular board meetings ▪ Monitor against Shareholder Compact ▪ Monitor against performance targets

IDENTIFYING MATERIAL ISSUES

Denel is a strategic enterprise that offers defence equipment to the country's military and law enforcement agencies. Consequently, our shareholder places a high premium on protecting the business, and regards the governance of risk, in whichever form it presents, as a key strategic driver. The material issues are those with the potential to affect Denel's ability to deliver on the strategy, create value and sustain the group in the short, medium and long term.

Denel has adopted an enterprise-wide risk management system approach. It is a combination of Committee of Sponsoring Organisations of the Treadway Commission (COSO) and ISO31000 principles. Risk assessment is embedded in the strategy process, the execution of significant transactions, as well as the delivery of products and services from conception to delivery. The risk management process entails continuous identification, evaluation, mitigation and monitoring of risk, using robust intelligence processes and structures. It informs strategic and operational decisions and is underpinned by an effective system of internal control. The system of internal control ensures delegations of authority, regulation of significant transactions, compliance processes and good governance. The various levels of the organisation play specific roles in the governance of risk. The board is ultimately responsible for risk governance and has assigned risk oversight to the Audit Committee and the Risk and Finance committee, which is supported by the S&E and PR&T committees on pertinent issues.

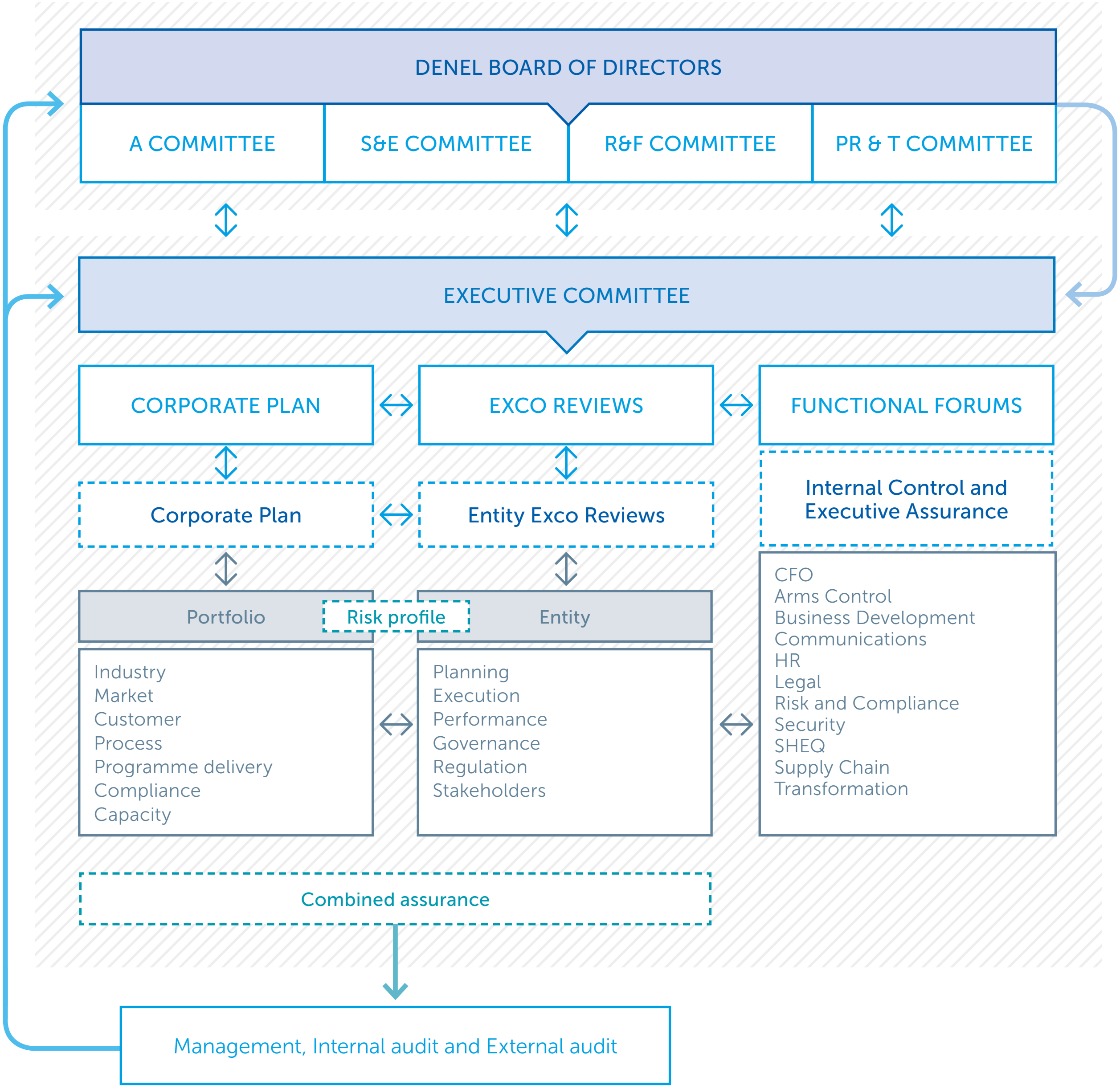
The Exco is guided by the delegation of authority in implementing systems of risk management. Denel has put in place a system of internal control which includes financial and operational processes to manage and monitor risk. The Exco is responsible to the Board regarding the implementation of a robust system of risk management and internal control. Denel adopted a combination of a top-down and bottom-up approach to risk assessment and uses business units and group Exco's risk assessments in developing the group risk profile. 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.

PRIORITISE AND RESPOND

Biannually, the group executive management undertakes a rigorous strategic planning process, which includes the identification of risks and opportunities, as well as assigning responsibilities for mitigation, reporting and monitoring of risks. Risk mitigation strategies are integrated into strategic and operational activities, processes and policies of the group. Denel recognises the complexities of operating in a contract environment and has therefore implemented processes to manage programme risks throughout the contract lifecycle of pre-proposal, proposal, design, development and execution at each business unit under the oversight of executive management. The programme manager's process is driven by high levels of project risk management.

The broad risk categories include financial, programme management, safety and environmental management and IT. An update is tabled at the audit committee for discussion and review.

The integrated risk management model is illustrated below:



The Board approves the Group treasury and financial policies as well as directives that govern financial risk management. Risks related to programme and contract execution are monitored and managed continuously by management through various forums at business unit level, including formal programme review meetings. Risks related to human capital retention, development and transformation are managed through HR and transformation forums at business unit and group level.

Denel has adopted various management systems, ISO9001, ISO14001 and OHSAS18001, on which workplace, environmental management and product safety processes are based. IT risk is managed through the IT governance framework and policy and managed at business unit level and by the IT steering committee. Focused attention is given to cybersecurity and awareness throughout the business.

The company's top ten risks that may have a material impact on Denel's business are detailed below, including the relevant key success factors, impact, affected stakeholders, opportunities and mitigations. The mitigations have been implemented and are duly monitored by both the Board and the Exco.

RISK DESCRIPTION		STRATEGIC RESPONSE
1	Solvency and liquidity resulting in cash shortages to fund operations, new contracts and growth	■ Funding strategies to strengthen balance sheet ■ Stringent working capital management ■ Improving relations with funders/investor ■ Restructuring and cost containment ■ Focused programme delivery monitoring and oversight
2	Late programme delivery of products to customers resulting in delayed cash inflows, penalties for late delivery and cost overruns	■ Implementing focused technical reviews at proposal/bid stages to mitigate technical risk at execution stages ■ Implementing project life cycle management. ■ Optimising supply chain/ sub-contractor management ■ Contract management to mitigate against onerous conditions and schedules and scope creeps ■ Inventory management ■ Focused programme oversight on high risk complex design /production programmes ■ Implementing joint customer/primary contractor project reviews
3	Non-compliance with laws and regulations resulting in litigation and negative reputation	■ Implementing and enforcing policies to comply with applicable laws, regulations and standards ■ Implementing systems to keep abreast of legal and regulatory developments ■ Implementing systems to comply with the PFMA and PPPFA and industry specific regulations and standards ■ Monitor and report compliance with debt covenants and other material transaction conditions.
4	Order cover: Reduced local defence spend, increasing competition in traditional markets and geopolitical factors resulting in low order book and idle capacity	■ Implementing strategies to unlock and access new markets ■ Implementing strategies to diversify markets and product portfolio ■ Maintaining relations with critical stakeholders to unlock new opportunities
5	Loss of trust due to bad publicity resulting from governance failures.	■ Implementing integrity management system for executives and senior management to eradicate and prevent appointing unethical leadership ■ Implementing and restoring sound governance across the organisation ■ Cooperating with public institutions to rebuild trust and credibility with stakeholders and the public ■ Enhance due diligence for on-boarding and monitoring of business partners.
6	Cybercrime: Unauthorised access to and theft of information through cyber crime	■ On-going development of cybersecurity capability to mitigate cyber risk ■ Continuous cybersecurity awareness campaigns ■ Continuous improvement of IT security measures
7	Supply chain: Inefficiencies and high costs impacting competitiveness delivery, quality and pricing	■ Promoting strategic sourcing to improve delivery and efficiencies ■ Implementing procurement plans in compliance with legislation ■ Alignment of programme delivery with procurement to reduce supply chain costs ■ Implementing stock obsolescence monitoring to reduce supply chain costs
8	Conduct of business partners and agents that may impact negatively on Denel's image	■ Conducting due diligence on potential partners ■ Including ethical requirements as a condition in contracts with technical advisors. ■ Improving monitoring and oversight of business partners ■ Continuously review, refine and strengthen processes for appointing technical advisors and agents.
9	Fraud and corruption (by employees, third parties and collusion with third parties)	■ Implementing fraud awareness and promoting whistle-blowing. ■ Management of business interests. ■ Introduce an electronic fraud- detection process at transaction level. ■ Continuous review and monitoring of controls around fraud high risk areas by management ■ Continuous strengthening of the internal control environment ■ Continuous review and monitoring of the general internal control environment by Internal Audit
10	Granting of prospecting/exploration rights on or closer to Denel's operations impacting its capacity to produce or render services	■ Participating in relevant processes as set out in applicable laws ■ Engaging stakeholders and relevant institutions in compliance with applicable laws and regulations ■ Maintaining relations with stakeholders

EXTERNAL ENVIRO
AND STRATEGY

PART FOUR

EXTERNAL ENVIRONMENT AND STRATEGY

EXTERNAL ENVIRONMENT

LOCAL ENVIRONMENT

The local customer is our most important partner and comprises 45% of Denel's current revenue stream. The local client base assists in key product developments which Denel leveraged when pursuing foreign business initiatives. The current defence and security budget is 1.1 % of GDP which is low compared to international norms. Whilst the relatively low defence spend places pressure on Denel to find export clients to maintain capability and be sustainable, it provides a base load together with investment in new technologies. The technology is important when pursuing export business. The export business provides critical mass to sustain strategic and sovereign defence capabilities. The strategic alignment between the DoD/SANDF and Denel ensures that the recently approved Defence Review policy implementation does achieve its stated objectives.

EXPORT ENVIRONMENT

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

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

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

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

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

STRATEGY

DENEL STRATEGY
CUSTOMER SATISFACTION AND CASH GENERATION

With the **national objectives** in mind - **transform** the business into a **profit/cash** generating "**outward-in**" looking **export driven** SOE through **recapitalisation**, **restructuring** and **smart partnership** to invest in a **changing A&D world.**

The implementation of **DSOM** will ensure maximum utilisation of the **integrated** support functions and resources, **optimised** procurement practises, **improved efficiencies** and **common product/market** focussed **commercial mind-set** in all divisions.

ONE DENEL – ONE VISION – ONE PURPOSE
EMPOWERED – ENERGISED – TEAMS

PROGRESS AGAINST THE STRATEGY

STRATEGIC DRIVERS	KEY OBJECTIVES	KEY OUTCOMES
Improve customer and other stakeholder relationship in support of a strong long-term order book	▪ Significant increase in order book that can be converted to cash generated revenue. ▪ Strong relationship with customers ▪ Leverage smart relationship	▪ Achieved a R2.7bn in year order intake. However, the order book was reduced to R18bn and is at levels lower than planned. ▪ A key objective remains the improvement of Denel's brand and relationships within its eco-system in support of a future-orientated growth strategy. Whilst the liquidity challenges of Denel have negatively impacted on the Denel brand and supply performance, sound, high level strategic communication is maintained between Denel and the DoD/Armscor and SANDF. Denel remains fully committed to its role as a sovereign and strategic supplier to the DoD. ▪ Extensive industrial cooperation with governments and other contractors have become the price of entry as demonstrated by the Tawazun Dynamics Joint Venture in UAE. Denel has ongoing engagements with customers to replicate this model.
Increase productivity, efficiency and profitability	▪ Focused managing of working capital ▪ Operational excellence in contract execution ▪ Optimise cost structure ▪ Lucrative contracting ▪ Profitable cash returns ▪ Restructuring debt profile ▪ Strong balance sheet	▪ High working capital levels due to the liquidity constraints ▪ Key contracts are behind schedule and ongoing engagements with clients are in progress to review timelines ▪ Sustained significant losses were incurred and this trend is expected to continue in 2019. However, Denel is engaged in a process to review the cost structure to reduce sustainably going forward; ▪ Debt ratio still not optimal despite some repayments; further actions to be followed in the new year
Enhance capability and foster innovation	▪ Deliver differentiated and sustainable value ▪ Leveraging current product lines ▪ Meeting customers' requirements ▪ Selective and focused R&D investment particularly in areas of expertise and core strengths	▪ Denel has strengthened its focus on products that would best suit market penetration and produce free cash flows available for technology investment. Whilst R&D work continues with very good results on the high technology products, other products best positioned for large volume exports were identified especially in the missiles and standoff weapons area. The industrialisation of the weapons is being reviewed to reduce cost and to enhance productivity. ▪ Denel is engaging with global customers to support their aspirations for more localisation as part of its market penetration drive. In the process investment in R&D and product development from customers has been secured that supports capability retention and development for Denel.
Create a dynamic and vibrant organisation	▪ An entrenched culture driving a transformed, high performance and innovative organisation ▪ Attract, develop and retain talent ▪ Good governance	▪ High working capital levels due to the liquidity constraints ▪ Key contracts are behind schedule and ongoing engagements with clients are in progress to review timelines ▪ Sustained significant losses were incurred and this trend is expected to continue in 2019. However, Denel is engaged in a process to review the cost structure to reduce sustainably going forward; ▪ Debt ratio still not optimal despite some repayments; further actions to be followed in the new year

PERFORMANCE REVIEW

PART FIVE

PERFORMANCE REVIEW

CEO'S REPORT

The year 2018 has been a difficult year for Denel as the Group faced numerous challenges that had material impacts on the company's financial performance.

The Group is taking decisive action to address these, ensure operational sustainability and restore shareholder value.

During the year under review, Denel has reported losses of R1 758bn that can be attributed to the following challenges:

- **Continued balance sheet weakness:** Losses incurred in 2017/18 and projected for 2018/19 has eroded the equity. This, together with large amounts tied up in working capital over the next 18 months, is putting pressure on the Denel business model. In addition, the group remains highly geared with debt of R3.3bn.
- **Relatively high cost base in relation to current revenue levels:** The current cost levels cannot be sustained with current revenue levels.
- **Relatively weak operating performance and contract execution:** Key to the success of Denel is good alignment and support from DoD/Armscor and Government. Improving on-time and on-quality deliveries to Armscor is a critical success factor to maintain this strategic relationship. The liquidity challenges have affected the ability to complete and execute on contracts.
- **Medium term order cover remains insufficient:** Although the order book has grown substantially in the previous years, the growth of revenue has eroded the order cover period. Medium term order cover remains insufficient with local demand declining and with Denel having low bargaining power.
- **Inadequate high-end skills/experience pipeline:** Revenue increase has placed a high premium on access to more high skilled employees. A sustained process to develop a high skills pipeline, drive appointments of black females and transformation remains a critical success factor to ensure adequate human resources.
- **Supply chain weaknesses remain untransformed:** The local supplier base capacity and capability profile are stagnating whilst on-time deliveries and efficiencies remain unsatisfactory. Global customers are placing more pressure on Denel to utilise its customer-industry in the execution of products and services.
- **Lapses in governance processes:** The lapses in governance and the implication of Denel in state capture resulted in serious reputational damage to Denel, affecting support from key stakeholders resulting in the withdrawal of facilities and loans, on which Denel is overly dependent.

We are undertaking a turnaround strategy, to ensure that Denel follows an integrated approach that addresses not only our current challenges, but also ensures that the future direction is clear. The focus is on stabilising the organisation, cleaning up governance issues, followed by a concerted strategy to re-energise and grow the business.

OPERATIONAL REVIEW

The business of Denel is to provide a strong and innovative technology base to enable an independent defence industrial capability and supports the mandate of a modern, balanced and technologically advanced South African National Defence Force (SANDF) that is required to protect the sovereignty of the Republic of South Africa and ensure targeted economic growth. The history of Denel over the past years clearly indicates that Denel has a track record of a sustainable business performance, albeit at modest profit levels.

In June 2018, we completed the production of the Al Tariq precision guided munitions together with Tawazun Dynamics. The design portion of the contract had been delayed leading to further delays in the production. This was at a severe cost contributing R319m in losses for the current year.

Denel is contracted by the local customer for the development and production of the new-generation infantry combat vehicle product system (Badger), namely Project Hoefyster. This contract was initially expected to be completed by December 2018. The design complexities within this programme have resulted in the delayed deliveries on the production of the system and increased the estimated cost to complete the contract. We are engaging with the customer to determine ways in which Denel could achieve the contract requirements despite the delays.

We are pleased with the successful delivery and acceptance of eight RG32M mine-resistant light armoured vehicles and four SDROW weapon stations to a Southern African armed force, who was the launch customer for the in-house developed SDROW weapon system. This success strengthens our objective of growing the African market.

In June 2016, Safran Helicopter Engines, as a majority shareholder in Turbomeca Africa (Pty) Ltd, announced an intention to restructure Turbomeca Africa based on a depressed world helicopter market. The intention was to exit the manufacturing business, retain the engine MRO business, and restructure it to ensure security of supply for the South African Air Force (SAAF), and to retain the front office business (field support for the broader Safran Helicopter Engines Customers). Subsequent extensive engagements and the following requisite approvals, the restructured engine MRO business was transferred to Denel to ensure continued support to the SAAF. Effective from 1 September 2017, the restructured Turbomeca Africa is now a 100% Denel-owned company. The retained employees and capabilities form part of the aircraft engine MRO, special processes and the materials technology function, which will ensure continued and uninterrupted support to the SAAF. This capability has been fully integrated into Denel Aeronautics.

The business of Denel is to provide a strong and innovative technology base to enable an independent defence industrial capability and supports the mandate of a modern, balanced and technologically advanced South African National Defence Force (SANDF) that is required to protect the sovereignty of the Republic of South Africa and ensure targeted economic growth.

The growing creditor backlog remains a challenge for the business together with direct impact to the local supplier base. Over the years, Denel has partnered in particular with the local suppliers for its major contracts. It has invested not only time but valuable technologies in the course of its industrialisation processes. We value the support given by the suppliers to Denel and we hope they continue to walk this journey with us.

BUSINESS GROWTH

The current order book has order to the value of R18.7bn with a pipeline of approximately R40bn. The current order book is inadequate, and much effort will be placed over the next five years to ensure a solid business development strategy is in place.

In the year under review the Middle East, Asia Pacific and Africa remain as the key regions that contributed to the revenue growth and this trend is expected to continue in the future. The focus is to further expand our footprint in the Middle East and Asia-Pacific regions.

Denel Dynamics has signed a contract for the supply of the Seeker 400 to a client in the Middle East. The product offering is a comprehensive solution consisting of six aircraft, two ground control stations, six electro-optic payloads, as well as the integration of other sensors, such as the synthetic aperture radar (SAR), satellite communication (SATCOM), and the integration of weapons. The weapon of choice for the client is the P2, recently designed for Tawazun Dynamics.

In Africa the total order of 45 Casspir mine-protected vehicles has been delivered. Added to this vehicle order, Denel is providing training services for drivers and technicians, as well as spares to facilitate repairs from Level 1 to Level 3.

In North America, a contract for the sale of 12 retired SAAF Cheetah multi-role aircraft and accompanying spares package was concluded in November 2017. A follow-on order for the support of the aircraft is expected after successful delivery of the aircraft and related spares package.

LOOKING FORWARD

Unlocking significant amounts of cash currently trapped in working capital is a key priority to support further growth in the group. We will comprehensively re-engineer our working capital processes including aspects of supply chain, planning the delegation of authority and the monitoring and evaluation mechanisms currently in place.

One of the critical steps to improve the cost base is to reposition and realign the business. The challenges, including production ramp up, programme execution and resource planning – specifically with the larger contracts – will mature and reach full capacity in this year. Comprehensive human resources and capital programmes are being put in place to ensure successful execution of these projects.

Job creation, youth development, employment equity, transformation and enterprise development are priorities that are on par with financial performance and improved revenue. Denel will continue to improve employment equity by recruiting from designated groups, including addressing gender equity.

We appreciate that we are currently facing tough times which might continue for the next two years. Robust and difficult actions will be required to improve our financial position. We will need to make tough decisions to turn Denel around, and we will need the support of all our stakeholders to walk this journey with us.

APPRECIATION

I want to express my gratitude to the Board of Denel, chaired by Ms Monhla Hlahla, for providing strategic leadership and oversight during economically volatile times.

Furthermore, I want to thank our Shareholder, the Department of Public Enterprises, and in particular, Minister Pravin Gordhan, as well as the officials of the department. My appreciation also goes to the Minister of Defence and Military Veterans, Nosiviwe Mapisa-Nqakula and the Council on Defence for their ongoing support to Denel, especially the Secretary for Defence Dr S. Gulube, the Chief of the SANDF, General Solly Shoke and Armscor CEO, Mr Kevin Wakeford and their respective teams that continue to provide unwavering support to Denel.

To all the executive team members of Denel and all our employees and representatives of Organised Labour, I want to extend a special word of gratitude. The success of Denel revolves around one key element: our human capital. Without you, Denel will not be able to face and overcome any challenges in the future.

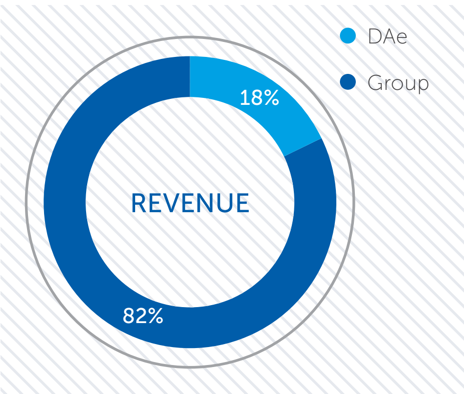
Michael L Kgobe
Group CEO Denel SOC (Acting)

OPERATIONAL REVIEWS

DENEL AERONAUTICS

- Met all major A400M deliverables, including additional spares and modification sales. Most notable is the performance of the Top Shells programme which celebrated its 67th consecutive on-time completion.
- Development of a strategic relationship with Boeing is maturing in pursuit of new business opportunities and revenue diversification. Denel Aeronautics was invited to a bidders' conference where Boeing launched a restructured supply chain aimed at developing focused factories for manufacturing and assembly.
- Positioning of the Small African Regional Aircraft (SARA) is progressing well towards its endorsement as a National Flagship Programme. There is interest from other SOEs to participate in the programme.
- Significant progress was made in the skills development programme, with two qualified artisans in manufacturing and two NDT engineers from the trained apprentice group being given permanent appointments. One chemical engineering student in her 2nd year continues to receive sponsorship and eight technicians completed their internship with the engineering department. Ten employees successfully completed the Henley Leadership Development programme.
- Completed the consolidation of Denel Aerostructures and Denel Aviation into a consolidated trading division, Denel Aeronautics, with minimal impact on jobs.
- Reduced ship sets requirement from the client has resulted in lower than projected sales. This has been exacerbated by liquidity challenges experienced by the Group.

CONTRIBUTION TO GROUP REVENUE 2017/18



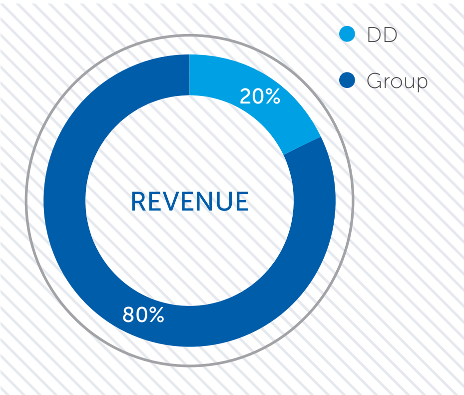
	2017/18 Rm	2017/16 Rm	Var %
Revenue	1 069	1 645	(35)
Export revenue	427	538	(21)
EBIT	215	(83)	(260)

1 024
employees

DENEL DYNAMICS

- The performance qualification flight trials for the A-Darter air-to-air missile were successfully completed. This also completed the critical design review and established the product baseline ready for industrialisation and manufacturing.
- The radar seeker for the Marlin missile was tested in a number of ground and captive flight tests. After completing successful integration on the missile during November 2017, a successful guided flight test was conducted from a ground launch to a manoeuvring target. The test proved the maturity status of the missile and the radar seeker design and indicated the focus areas to be addressed in this year to mature the technology further.
- Denel Dynamics was contracted by Patria Aviation Oy to upgrade the SAM Umkhonto-IR Vessel Mounted Equipment (VME) on four Hamina class vessels of the Finnish Defence Force. This include the supplying of services for the commissioning of all four Hamina-class vessels. The contract also includes the supply of integrated logistic support training and documentation for the upgraded SAM Umkhonto-IR System.
- The Seeker 400 achieved Military Type Certification and the system was delivered for operational test and evaluation.
- High resolution payload detailed design of the EO-SAT1 satellite was completed (optics and detector electronics). The first successful radiation tests on electronics components was carried out and data reduction completed. Communications between satellite and ground station was achieved with software-defined radios.

CONTRIBUTION TO GROUP REVENUE 2017/18



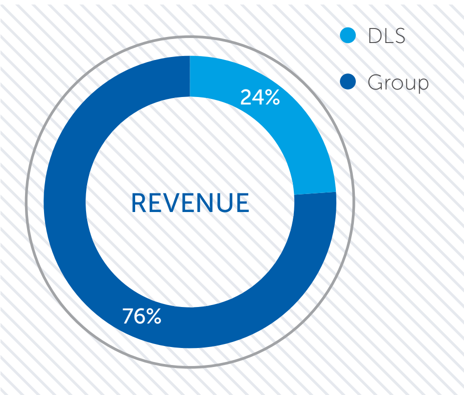
	2017/18 Rm	2017/16 Rm	Var %
Revenue	1 278	1 672	(24)
Export revenue	720	1 016	(29)
EBIT	(463)	(2)	(23250)

716 employees

DENEL LAND SYSTEMS

- Progress in the development phase of Hoefyster is made to the extent that the Product Base Line for the Command Variant was established whilst the overall technical progress combined on all the variants is 93% to completion Industrialisation for the Hoefyster, Section variant turrets is well under way, whilst production at all major suppliers are already delivering the major components, including the 30mm main weapon from the Denel Land Systems production facility.
- Achieved major milestones with AV8 programme with delivery to the Malaysian client of LCT30 light combat turrets, anti-tank guided-weapon turrets (ATGW) and remote-controlled weapon station turret (RCWS) systems. To date 56 of the contracted systems – out of 122 – has been delivered to the end user and some deployed in operations. Delays incurred, however, affected export revenue recognised for 2018.
- The local Artillery upgrade programmes (Muhali and Topstar) is progressing well with successful user evaluation concluded;
- Significant progress made on maturing various artillery opportunities that will form the back bone for medium- and long-term business in Denel Land Systems
- Successful installation and completion of a Military Image Interpretation Computer Systems (MIICS) and associated training system for the SAAF (Project Achilles) in the Joint Air Reconnaissance Intelligence Centre (JARIC) at AFB Waterkloof. There is a continuous focus on efficiency improvement combined with human capital development. All engineering capability was combined into a single department to position the division for the short- and medium-term growth.
- Mechem cleared large tracts of land and roads of mines and other explosive remnants of war through various demining or ERW clearing projects in several African countries.
- Final delivery of the last 20 Casspirs to the Angolan armed forces was successfully executed.

CONTRIBUTION TO GROUP REVENUE 2017/18



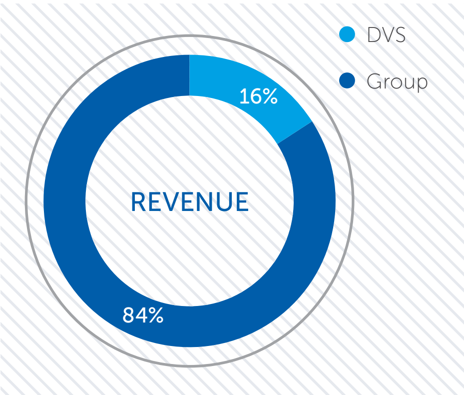
	2017/18 Rm	2017/16 Rm	Var %
Revenue	1 093	2 675	(59)
Export revenue	575	1 955	(71)
EBIT	(683)	174	(493)

737 employees

DENEL VEHICLE SYSTEMS (PTY) LTD

- Liquidity constraints during the financial year impacted on project execution and ultimately impacting on profitability.
- DVS remained profitable (Net profit of R4m) despite challenging trading conditions underpinned by the liquidity constraints.
- Successful delivery and acceptance of eight RG32M mine-resistant light armoured vehicles and four SDROW weapon stations to a Southern African armed force, who was the launch customer for the in-house developed SDROW weapon system.
- Successful development and launch of a RCG30 Camgun to internal stakeholders.
- Significant reduction in fruitless, wasteful and irregular expenditure as compared to the prior year because of improved compliance governance processes and monitoring.
- B-BBEE Level 5 rating achieved under the new codes (previously a Level 7).
- Maintained ISO and safety accreditation, and equipment renewal through capital investments and skills development through mentoring and training, along with succession planning to replace ageing workforce.

CONTRIBUTION TO GROUP REVENUE 2017/18



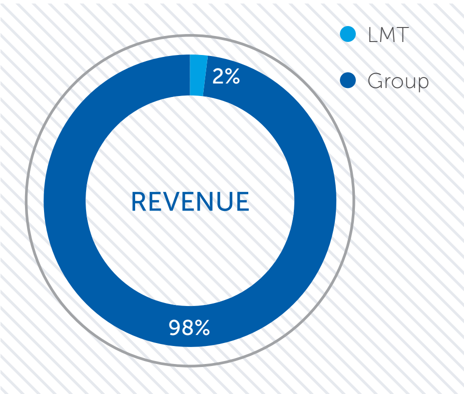
	2017/18 Rm	2017/16 Rm	Var %
Revenue	940	1 171	(20)
Export revenue	661	862	(23)
EBIT	(12)	110	(112)

582 employees

LMT HOLDINGS SOC LTD (RF)

- Received orders from a local mine house for protected vehicles.
- Received orders to manufacture components for two Denel Companies.
- Delivered LM5 vehicles to two African countries for their police departments.
- We are continuously improving processes and procedures to enhance efficiency, effectiveness, quality and, ultimately, customer satisfaction.
- Achieved Level 6 contributor status for B-BBEE.
- Restructured business in time and budget, thereby reducing under-recoveries by approx. R25m.
- Amended LM13 contract signed in August 2017; programme resumed in September 2017 after T0 reached. This included recovery of long outstanding LM8 and PTV debtors.
- First milestone on amended LM13 contract, the supply of 27 turrets to customer, achieved ahead of schedule.
- Increased orders for spares from Daimler
- Implemented all agreed Denel policies
- Retained ISO9001:2008 and OSHAS 18001:2007 status

CONTRIBUTION TO GROUP REVENUE 2017/18



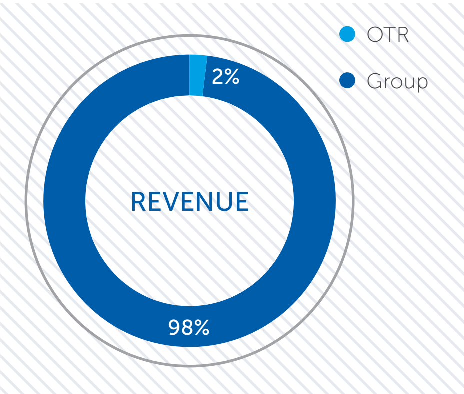
	2017/18 Rm	2017/16 Rm	Var %
Revenue	118	152	(22)
Export revenue	105	150	(30)
EBIT	(174)	(4)	4250

178 employees

DENEL OVERBERG TEST RANGE

- Provided in-flight test services to the SANDF in terms of a multi-year contract.
- Successfully tendered for a new five-year contract with the DoD&MV to deliver in-flight test services up to 31 March 2022, the first time an order for a five-year period was placed. It will cover about 40% of OTR's annual sales for this period.
- Conducted tests for two established international clients, namely a ground-to-air defence test for the Singapore Air Force involving missiles fired at static and dynamic targets, and an air-to-ground test for the German Air Force in which stand-off missiles were released at various targets.
- Provided essential support to Denel Dynamics for various in-service and development tests.
- Continued with technology renewal programme focused on upgrading and maintaining capabilities to meet client requirements, including the complete refurbishment of a cinetheodolite instrument and procurement of various new high-speed video cameras and hardware interfaces.
- Completed various research and development projects, including developing the technology for a radio-controlled moving target with a range more than 10km. This target has already been successfully used in a recent test.
- Maintained ISO9001:2008 and ISO14001:2004 certification, which underlines OTR's commitment to quality service within environmental management principles.

CONTRIBUTION TO GROUP REVENUE 2017/18



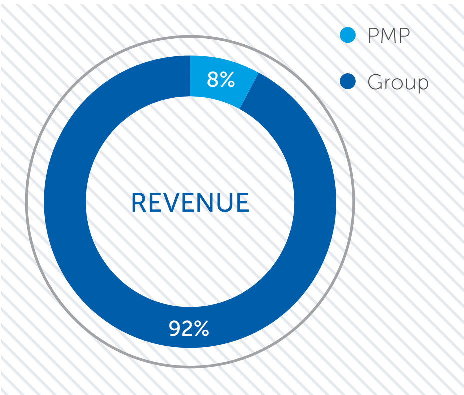
	2017/18 Rm	2017/16 Rm	Var %
Revenue	96	137	(30)
Export revenue	21	43	(51)
EBIT	2	10	(90)

152 employees

PRETORIA METAL PRESSINGS

- The first demonstrator of the fully automatic 20x42mm iNkunzi Strike weapon system was completed and underwent functional tests. Further design improvements are intended to establish the baseline for finalisation of two weapons systems to be qualification units. The qualification phase and integration of the weapon with the SDROW remote control turret is expected to be completed by March 2019.
- Additional export orders for the iNkunzi PAW weapon system were received, showing the market's positive acceptance of this innovative system. This is further attested by increased enquiries for the PAW system.
- Electricity savings project proved to be a success. Light fittings were changed to reduce energy consumption with changes made to wiring for certain areas to be switched off and auto switches installed to switch off equipment when not in use.
- Key Projects that were successfully completed include the following:
  - 30mm Aden Practice round: driving band improvement to eliminate yaw of projectile at high temperatures, qualified and finalised.
  - 30x173mm APFSDS-T: NAMMO APFSDS-T projectile successfully integrated with PMP components, qualified and finalised.
  - 12.7x99mm Multi-Purpose round: NAMMO MP projectile successfully integrated with PMP components, qualified and finalised.
  - 35mm Link: Link manufacturing process successfully introduced and qualified at PMP.

CONTRIBUTION TO GROUP REVENUE 2017/18



	2017/18 Rm	2017/16 Rm	Var %
Revenue	444	583	(24)
Export revenue	216	158	(37)
EBIT	(140)	(44)	218

1 005 employees

FINANCE REVIEW

Operating loss
R1.7bn

Maintained investment grade credit rating

Strong order book of
R18bn

55%
Export revenue

Revenue down by
38%

Debt to equity
3.6:1

Interest Expense
R 292m

OVERVIEW

Denel has experienced a difficult year with the pervasive impact of the liquidity crisis and reputational damage suffered through association with state capture on all aspects of the business. Denel's relationship with financial institutions and the investment community, on which the company rely for facilities and bridging finance, was negatively impacted by allegations of state capture. This, together with delays in the Hoefyster and MBARC I programmes resulted in a liquidity crunch as capital invested in working capital could not be unlocked and lenders were unwilling to provide further liquidity to the Group.

Because of this, Denel was unable to mobilise its supply chain and execute and deliver on work that it had. This was largely responsible for the negative results recorded in the financial year. Margin was lost on revenue and related resources, employed as a fixed cost in the company, could not be recovered. Provision for additional costs to complete the Hoefyster development and MBARC I programmes, partly due to liquidity constraints, partly due to technical difficulties, also impacted the financial results for the year.

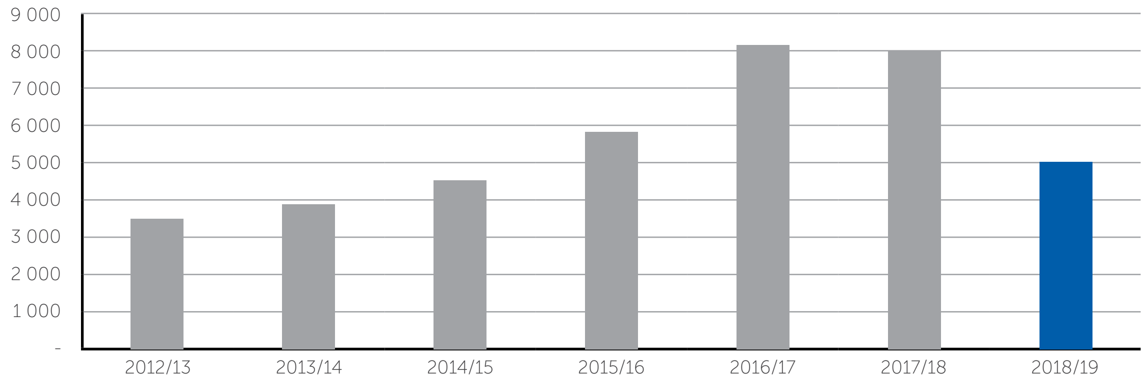
The introduction of a new and credible Board in April 2018, together with a comprehensive plan on governance turnaround have largely addressed the concerns of financial institutions and the investment community and relations are returning to normal. As a result, Denel was successful in refinancing existing debt of R2.8bn in 2018/19.

Denel is working closely with, and receiving support from, its shareholder, the DPE as well as National Treasury in resolving its liquidity issues. Mitigating actions include the granting of additional guarantees, identification and sale of non-core assets, restructuring, strategic partnerships and support from investors. Denel expect to conclude on these actions during the 2018/19 financial year, subsequently normalise operations, build relations with its supply chain and return to profit in the 2019/20 financial year.

FINANCIAL PERFORMANCE

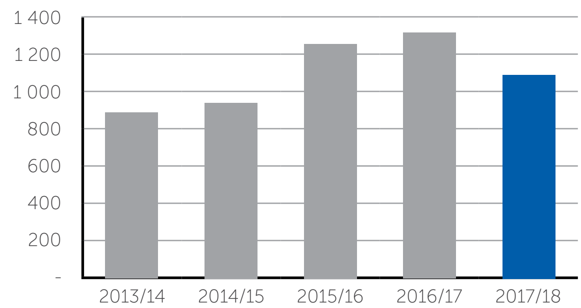
Revenue for the year dropped by 38% to R4.9bn (2016/17: R8.0bn) mostly driven by the delays on the major programmes, Hoefyster and MBARC I. The development phases of both the programmes were delayed leading to cost increases and delays in production. The liquidity challenges further affected deliveries to clients as it became difficult for suppliers to deliver on critical components required. The export revenue at 55% has decreased by 8% to R2.7bn mainly because of reduced sales in the Asia-Pacific and Middle East regions.

REVENUE Rm



The gross margin of (2.42%) (2016/17: 22%) deteriorated as result of the high base cost which could not be recovered as revenue and plant activity were at very low levels. The operating costs were under severe pressure due to normal inflationary increases and the deterioration of the rand impacting foreign exchange gains and losses R273m (2016/17: R232m). A review of the cost base is under way to ensure that the business is able to contain costs at a sustainable level. Due to the future negative cash flows of LMT, Denel SOC Ltd impaired the loan to LMT (R313m) together with the goodwill related to its acquisition (R9.0m). Management performed an impairment test on Denel Vehicles Systems and impaired goodwill of R217m. Management considered the business cash flows which has altered dramatically due to the liquidity challenges and the fact that some of the synergies expected on acquisition had not materialised.

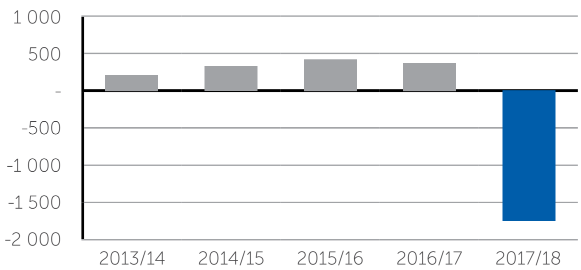
NORMALISED OPERATING EXPENDITURE Rm



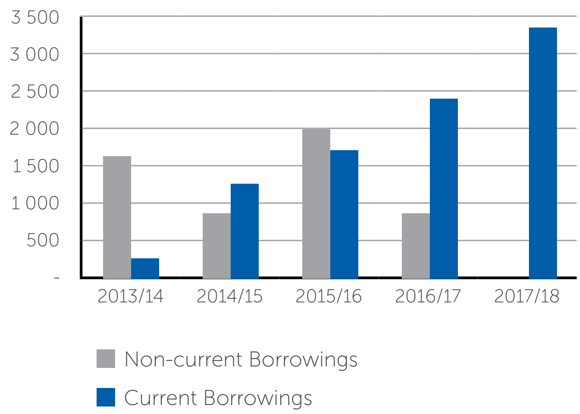
The decline in revenue led to reduced earnings before interest and tax (-R1.4bn) compared to the prior year (R556m). Net finance costs increased to R292m (2016/17: R272m) as a result of the increased cost of borrowings. The net loss was negated by the 46% increase on income from associates compared to the prior year (2016/17: R155m). This was sustained by a significant increase realised from the profits earned by RDM.

(Normalised Opex excludes foreign exchange losses, restructuring costs and other significant expenses e.g. impairments and reversals thereof).

NET PROFIT OR LOSS



TOTAL BORROWINGS



Total assets have decreased to R11.0bn (2016/17: R12.5bn) driven mainly by the decrease in cash and cash equivalents R1.3bn (2016/17: R2.0bn). The total debt has increased by R354m to R10.1bn (2016/17: R9.8bn). The increase diminished driven by the increase in the trade payables due to the late payments as funds. The borrowings profile was made primarily all current debt as the guaranteed debt matured in September 2018.

PRIOR PERIOD ERRORS

During the current year several transactions that occurred in the prior years were accounted for incorrectly. The financial statements were amended, and the impact noted as required by IFRS. The transactions are detailed below:

CORRECTED

INDEMNITY CLAIM (A400M)

Denel Aerostructures SOC Ltd has an indemnity with the South African Government, that should the business make a negative contribution in the manufacturing process, under certain conditions, those losses will be recovered. An audit by the Shareholder of the indemnity claim for the current financial year revealed an error that relates to the 2015/16 financial year claim. A formulae error resulted in an over claim of R27m.

REVERSAL OF IMPAIRMENT

During the 2015/16 financial year, an internally developed intangible asset (Seeker 400) of Denel Dynamics was fully impaired at its total value of R159m. During 2016/17 financial year, R72m of the previously impaired amount was reversed due to the reassessed recoverability. Management later reviewed this assessment after considering assumptions made and decided that the reversal of the impairment should not have been recognised in the prior year.

INCORRECT RECOGNITION OF REVENUE

Denel Land Systems entered into a transaction with IGG whereby the customer wanted to purchase G5 weapons immediately. These guns were borrowed from the SANDF (end user) and an agreement was entered into with Armscor (procurement agent), whereby DLS would replace these guns to the SANDF at no cost.

These transactions were treated incorrectly in accordance to IAS 11 (contract revenue), rather than IAS 18 (sale of goods). As a result of the incorrect treatment the sale to IGG was not taken in the period in which it was sold.

RECOGNITION OF LIABILITY

During March 2016, there was an amendment to the contract between Denel Land Systems and Armscor, where Denel Land Systems was provided with an additional 10% advance payment as contractually required. In exchange for this, DLS was contractually expected to provide additional variants to Armscor upon completion of the Hoefyster production phase. This obligation was interpreted as a constructive obligation in accordance to IAS37 and a creditor was raised for this obligation.

UNCORRECTED

FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

Prior to 2007 Denel transferred some of the assets that were previously recognised as property, plant and equipment to investment properties as the intention for holding these assets was no longer to owner-occupy, but rather to earn rental income from the use of the property. During the same period IAS 40 para 63 requires that the fair value movements of the respective properties must be updated through the other comprehensive income. Previously these were recognised through the income statement. On conclusion of the 2017/18 financial year, management could not ascertain the time at which the transferred occurred and could therefore not fully account for the fair value movements for the prior year. Management has correctly accounted for the fair value movements in 2017/18 and will endeavour to account for the complete prior period error in the 2018/19 financial year.

REVENUE RECOGNITION

Upon review of revenue recognition in prior years the following errors were identified but not adjusted for:

Dynamics & LMT – Whilst construction contracts IAS 11 was correctly applied in recognising revenue, there were material errors identified in relation to the recognition of penalties and the translation of foreign revenue. At the end of 2017/18, management could not correctly quantify the full impact on the prior years and will disclose the full impact in 2018/19.

DVS & DAE – A misinterpretation of the IFRS standards resulted in the application of an incorrect standard on the recognition of revenue recognition. Instead of applying Construction contracts IAS 11, revenue recognition IAS18 was applied. At the end of the 2017/18 financial year management could not quantify the full impact on the prior year periods.

The above transactions had impacts on cost of sales, inventories, receivables and advance payments.

UNWINDING FOR THE DECOMMISSIONING PROVISION INCORRECTLY DISCLOSED

The provision for site restoration had been erroneously posted to the Statement of Comprehensive Income instead of being capitalised to the cost of the assets.

DENEL MEDICAL BENEFIT FUND

Denel offered a post-employment medical subsidy to employees who were employed before 1 April 2000 and were members of its medical scheme. This liability was funded by Denel and the assets are housed in the Denel Medical Benefit Trust. In the past management had not consolidated the surplus on this defined benefit asset.

INVESTMENT IN SUBSIDIARIES

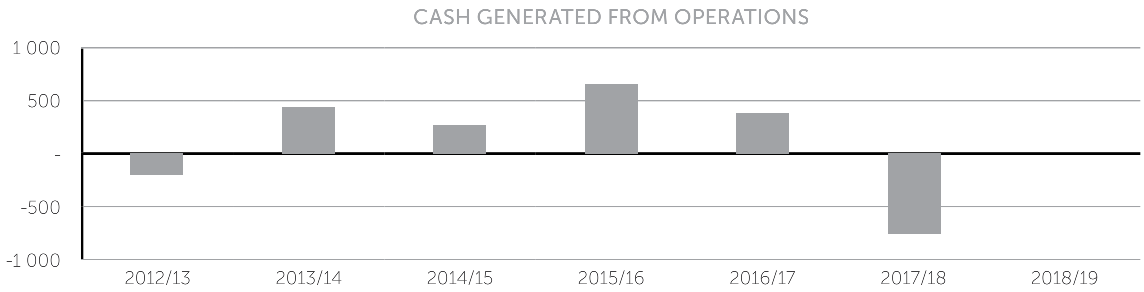
During September 2017, Denel acquired 100% ownership of Turbomeca Africa. The treatment of this acquisition did not comply with the requirements of IFRS 3 paragraph 18 and 32.

CAPITAL MARKETS

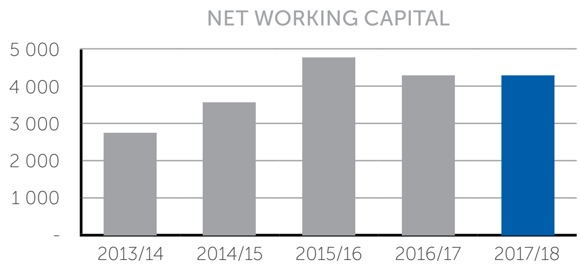
Denel has a DMTN programme of R4.0bn that allows for short-and medium-term debt issuance. Of the R4.0bn, an amount of R3.3bn is government-guaranteed and the guarantees mature on 30 September 2018. The guarantees have been subsequently renewed for a period of five years and we this expect to improve the future outlook in the market.

Fitch Ratings has downgraded Denel's long-term rating to AA-(zaf) from AAA (zaf) with a negative outlook and reaffirmed the short-term rating F1+(zaf). The rating agency cited the short- term nature of government support in the form of guarantees as an area of concern as well as the deteriorating performance of Denel in 2017/18.

CASH



Denel had negative cash generated from operations of R716m this year, driven by reduced receipts from customers, increased interest payments and reduced prepayment received. The net cash position reduced significantly by 37% to R1.3bn compared with R2.0bn in the prior year. The business experienced liquidity challenges due to the increase in working capital levels from the 2015/16 financial year.



BUSINESS OUTLOOK

Denel continues to provide a strong and innovative technology base to provide an independent defence industrial capability and supports the mandate of a modern, balanced and technologically advanced SANDF that is required to protect the economic growth and security of the Republic of South Africa. Denel has a track record of a sustainable business performance albeit at modest profit levels. This position is further supported by the substantial order book of Denel of circa R18.7bn. The business focus going forward is as follows:

- To restructure the cost base to acceptable levels without compromising on delivery of technology advanced products to the customers;
- Strengthen the balance sheet through cash injections from the shareholder to reduce reliance on debt and improve solvency
- Adopt stringent working capital measures to ensure cash containment at all times; and
- Strengthen the control environment to improve financial reporting throughout the group.

PERFORMANCE AGAINST THE SHAREHOLDER COMPACT

SIS STRATEGIC OBJECTIVES	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	ACTUALS 2016/17	2017/18 TARGETS	2017/18 ACTUAL	COMMENTS
OPERATIONAL EXCELLENCE	Security of supply and retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MVs requirements as per register	100%	100%	**100%**	
	Research and development	Research and development investment	R609m	>=R500	**R769m**	
	Programme delivery	Achieving contracted cash flow targets on major programmes.	96%	>85%	**60%**	Target not met due to delays on all major contracts
		Achieving of cardinal milestones as contractually agreed by clients for selected major programmes	86%	> 85%	**42%**	
SUSTAINABLE DEVELOPMENT	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	84%	80%	**83%**	Target exceeded
		Women as % of total appointments	51%	40%	**44%**	Target exceeded
	B-BBEE level	B-BBEE contributor level (new codes)	Level 4	Level 4	**Level 6**	Target not met due do liquidity constraints
	Preferential procurement and enterprise development (current baseline for women owned=1.3%)	Local Content	76%	70%	**73%**	Target exceeded
		B-BBEE (% of recognised spend):	100%	75%	**71,46%**	Target not met due do liquidity constraints
		Procurement from Black owned suppliers as % of local spend	27%	30%	**30%**	Target exceeded
		Black woman owned as a % of total local spend	9%	9%	**15%**	Target exceeded
SUSTAINABLE DEVELOPMENT	Preferential procurement and enterprise development (current baseline for women owned=1.3%)	Black youth owned as a % of total local spend	1,60%	1%	**0,80%**	Target exceeded
		Spend on companies with ownership by Persons with Disabilities	0%	0,20%	**2,70%**	Target exceeded
		Small and emerging enterprises suppliers developed	73	30	**55**	Target exceeded
	Corporate social investment	Total CSI Spend	R7.2m	>=R10 million	**R9.4m**	Target not met due do liquidity constraints
	Training spend	% of personnel cost	3%	3%	**2%**	Target not met due to liquidity constriants
	Skills development-scarce and critical skills	Total number of engineering trainees (bursaries and internships)	85	50	**9**	Target not met due do liquidity constraints
		Total number artisan trainees	177	100	**249**	Target exceeded
		Total number of DTA artisan (enrolments during the year Denel sponsored only)	66	100	**151**	Target exceeded
FINANCIAL SUSTAINABLE	Cash	Cash generated from operations, after restructuring	R380m	>=R350m	**(R716m)**	Target under strain due to project delays, non-payment of creditors and over investment in working capital.
	Order intake	Value of new orders to be concluded in 2017/18	R5.2bn	≥ R2bn	**R2.7bn**	Target exceeded
	Solvency	Debt/Equity	NA	80/20	**74/26**	Target not met due to losses and restructuring of balance sheet required
	Profitability management	EBIT Margin	8%	4%	**(29%)**	Target not met

OUR GOVERNANCE

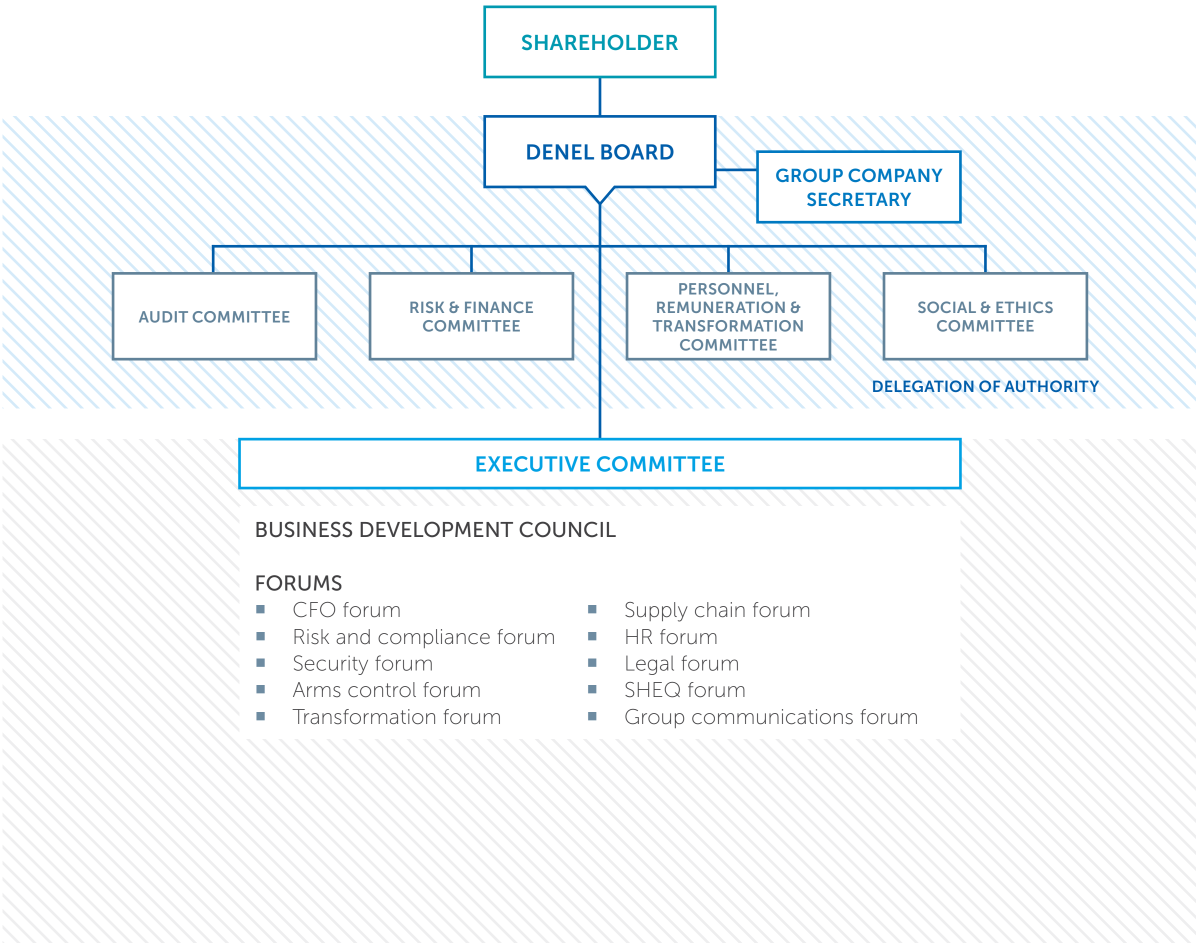
PART SIX

OUR GOVERNANCE

HOW WE ARE GOVERNED

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

The Board commits itself to apply and enforce the applicable corporate governance principles. It further recognises that sound corporate governance enhances the long-term sustainability of the company and provides assurance to its stakeholders that the company is well managed. Risk management and internal control systems are in place, which are designed in accordance with best practice and in compliance with the King Code of Governance Principles and the King Report on Governance (King IV report) recommendations, as well as the governance requirements of the Companies Act, no. 71 of 2008 (Companies Act), as amended.



Governance principles and the main duties of the Board, under the leadership of the chairperson; executive and non-executive directors and group chief executive officer (GCEO) are clearly documented in the board charter. Our board charter includes a schedule of matters reserved for the Board and the terms of reference of the respective board committees. Our governance framework was developed to meet the group's strategic objectives and compliance requirements. At the same time, it balances the interests of stakeholders, and minimises and avoids conflicts of interest, whilst practicing good corporate behaviour. The Board further delegated management accountability to the company's GCEO through the Delegation of Authority Policy and performance contract.

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

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

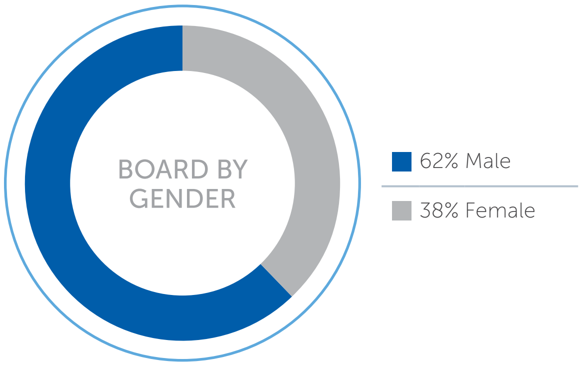
The Board plays a critical role in strategy planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie our values, culture and processes. The group is managed in an efficient, accountable, transparent and ethical manner. This ethos is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

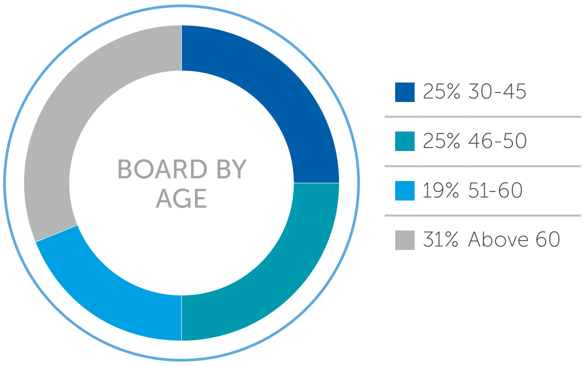
RESPONSIBILITY AND ACCOUNTABILITY

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

COMPOSITION OF THE BOARD

The Denel group has a unitary Board, comprising two ex-officio directors, the GCEO and the group chief financial officer (GCFO), as well as thirteen non-executive directors. They all meet the Board's independence criteria in terms of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the group. The company supports the principles of gender diversity at board level. Collectively, the Board believes the current mix of knowledge, skill and experience meets the requirements to lead the company effectively.





APPOINTMENT AND RETIREMENT OF DIRECTORS

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

Our 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 our shareholder at the Annual General Meeting (AGM). Whilst retiring non-executive directors are eligible for re-appointment, director retirement is staggered to ensure continuity. Our ex-officio directors comprise the GCEO and GCFO who are appointed on fixed-term contracts.

The following directors have resigned / removed during the year:

- Ms R Mokoena effective 14 June 2017
- Mr TJ Msomi effective 26 July 2017
- Mr LD Mantsha effective 28 February 2018
- Ms M Kgomongoe 4 April 2018
- Ms KPS Ntshavheni effective 5 April 2018
- Ms PM Mahlangu effective 9 April 2018
- Lt Gen TM Nkabinde (rtd) effective 9 April 2018
- Mr ZN Ntshepe (GCEO and executive director) effective 15 May 2018

The shareholder rotated the Board on 9 April 2018.

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

Our 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 our shareholder. The appointment letters indicate the terms of office of the non-executive directors, legislation governing their appointment, as well as information pertaining to their remuneration.

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

It is incumbent upon directors 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 by a firm of governance experts as part of the Board's effectiveness review. This process creates value for the group and its stakeholders and ensures greater accountability. To ensure governance best practice is applied, a Board effectiveness review was performed by an external service provider during the financial year. The following areas were identified for improvement:

- Additional skills set in risk management, IT and accounting (preferably a Chartered Accountant) should be presented at board level; and
- Expediting the filing of three vacancies on the Board of Directors

MANAGING CONFLICT OF INTEREST

The principle of effective management of conflicts of interest is paramount to limit risk and ensure transparency. Our Board members declare their interests at each board and subcommittee meeting regarding any agenda item to prevent a director's personal interests taking precedence over those of the company. Directors' interests are declared by the individual directors in a register which is presented to our 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 our directors regarding agenda items tabled at either the Board or committee meetings. A similar practice applies to all employees of the group.

BOARD INDUCTION AND SHARING OF INFORMATION

Given that Denel operates in a highly technical environment, a comprehensive induction for new directors assists them in acquiring a greater understanding of Denel's business operations, its range of products and services, as well as the way these integrate into defence systems. 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. Directors are continuously briefed on relevant new legislation and regulations. This year the Board was updated on the key differences between the King III and King IV reports on corporate governance. The board charter and terms of reference of board committees were reviewed and revised to align with the principles of King IV and approved by the Board.

To enable directors to add value in their interactions with stakeholders, continuous training includes board meetings being held on a rotation basis at different business units. This allows directors an opportunity to interact with business unit executives and to observe operations in situ. Quarterly reports circulated to directors to keep them abreast of developments outside of scheduled board meetings. Attendance at some of the defence exhibitions in which Denel participates, allows directors to have a first-hand experience of the global defence market, where the group's products and services compete with the best on offer.

GROUP COMPANY SECRETARY

The group company secretary is responsible for developing systems and processes to enable the board to discharge its specific functions. This ensures significantly enhanced organisational efficiency. This function has the effect of limiting risk and improving accountability. The group company secretary also advises the Board on corporate governance issues, sets the annual plan for the Board in conjunction with the chairperson and monitors compliance with relevant legislation, including the Public Finance Management Act, no. 1 of 1999, as amended (PFMA) and the Companies Act. All directors have access to the incumbent for company-relevant services and guidance and the group company secretary also keeps the Board updated on any new relevant legislation.

BOARD MEETINGS

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

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

COMMITTEE	MATERIAL MATTERS CONSIDERED
Board	During the 2018 financial year, the board fulfilled the following duties in accordance with its mandate: ▪ Reviewed and approved the strategy and strategic objectives of Denel ▪ Approved the 2017 Integrated Report including the annual financial statements ▪ Approved reports to the Shareholder including the Corporate plan 2017/18, quarterly business report and Materiality and Significance Framework. ▪ Set the tone of the company values including principles of ethical business practice and requirements of being a responsible corporate citizen ▪ Confirmed that the company complies to all applicable laws and best corporate governance practices ▪ Exercised independent, informed and effective judgement to bear on material decisions of the group companies ▪ Reviewed management's assertion on liquidity and going concern ▪ Assessed the stability in executive management ▪ Statement on performance management

DETAILS REGARDING BOARD MEETING ATTENDANCE ARE REFLECTED BELOW:

	BOARD MEETINGS											AGM
BOARD MEMBER	Total	Special 7 Apr 17	25 Apr 17	Special 7 Jun 17	Strategy 7 Jun 17	27 Jul 17	Special 25 Aug 17	26 Oct 17	Budget 30 Nov 17	Special 15 Feb 18	22 Feb 18	25 Aug 17
Mr LD Mantsha (Chairman)	11/11	√	√	√	√	√	√	√	√	√	√	√
Ms M Kgomongoe	11/11	√	√	√	√	√	√	√	√	√	√	√
Ms PM Mahlangu	11/11	√	√	√	√	√	√	√	√	√	√	√
Ms R Mokoena [1]	1/4	A	√	A	A	-	-	-	-	-	-	-
Mr TJ Msomi [2]	2/4	√	√	A	A	-	-	-	-	-	-	-
Lt Gen TM Nkabinde (rtd)	10/11	A	√	√	√	√	√	√	√	√	√	√
Ms KPS Ntshavheni	9/11	√	√	A	A	√	√	√	√	√	√	√
Mr Z Ntshepe	10/10	-	√	√	√	√	√	√	√	√	√	√
Mr Z Mhlwana	10/10	-	√	√	√	√	√	√	√	√	√	√

A Apology
1. Resigned from 14 June 2017
2. Resigned from 26 July 2017

BOARD COMMITTEES

The Board has delegated specific responsibilities to three standing subcommittees, namely the audit committee, the personnel remuneration and transformation (PR&T) committee and the social and ethics (S&E) committee. The board committees assist the directors to discharge their duties and ensure board effectiveness in discharging its duties. The committees' terms of reference are set out in the board charter and are reviewed annually to limit risk and ensure they remain in line with relevant regulations, company requirements and best practice in corporate governance.

The audit committee meets four times a year, in agreement with the company's Memorandum of Incorporation (MoI) and the other board subcommittees meet at a minimum three times a year. Executives regularly attend the board subcommittee meetings in line with their roles and responsibilities.

Minutes of the subcommittee meetings, including the respective chairperson's reports, form an integral part of the board meeting documentation to keep the Board abreast of the subcommittees' activities. Significant matters discussed at these subcommittee meetings are regularly submitted with recommendations for the Board to deliberate and decide.

AUDIT COMMITTEE

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

The audit committee provides the following support to the group: the audit and risk function, corporate governance, the governance information technology (IT) and other business risks. To improve accountability and limit risk, the appointment of members of the audit committee is reconsidered and voted on at every AGM.

The committee's terms of reference are reviewed and updated annually in line with relevant new legislation and best practice. The terms of reference include the committee's mandate, which is to ensure the integrity of financial reporting, the adequacy of governance, soundness of the internal control environment and the robustness of risk management processes.

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

- Reviews the Integrated Report, including consolidated annual financial statements, and considering reports of the auditors on the financial statements;
- Reviews and assesses the risk control process and systems;
- 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;
- 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;
- Considers treasury controls and related risk management processes; and
- IT governance.

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

COMMITTEE	MATERIAL MATTERS CONSIDERED
Audit Committee	During the 2017 financial year, the committee, amongst others, focused on the following: ▪ Reviewed and recommended for adoption to the board the Annual Financial Report and the Integrated Report for 2017. ▪ Reviewed the reports from the internal and external auditors regarding the effectiveness of the internal control environment. ▪ Monitored the appropriateness of the company's combined assurance model. ▪ Approved the external and internal audit plans ▪ Reviewed and recommended the external audit fees ▪ Reviewed the quality and effectiveness of the external audit process. ▪ Considered and approved the insourcing of the internal audit function ▪ Reviewed the quarterly reports before submission to the executive authority.

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

	BOARD MEETINGS						
BOARD MEMBER	Total	24 Apr 17	18 Jul 17	17 Oct 17	Joint Audit Committee & PRT 24 Oct 17	25 Jan 18	Special 22 Feb 18
Ms M Kgomongoe (Interim Chairman)	5/6	√	√	A	√	√	√
Mr TJ Msomi [1]	2/2	√	√	-	-	-	-
Ms KPS Ntshavheni	6/6	√	√	√	√	√	√
Lt Gen TM Nkabinde (rtd) [2]	4/4	-	-	√	√	√	√
STANDING INVITEES							
Mr Z Ntshepe	5/6	√	√	√	A	√	√
Mr Z Mhlwana	6/6	√	√	√	√	√	√
INVITEES							
Ms PM Mahlangu [3]	2/3	√	A		√	-	-

A Apology
1. Resigned from 21 July 2017
2. Appointed on 25 August 2017
3. Requested to attend meetings as from 1 February 2016 to 31 July 2017 as observe

SOCIAL AND ETHICS COMMITTEE

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

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

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

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

- Evaluating policies and measures in place to prevent fraud and corruption;
- 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; and
- Reviewing occupational health and safety (OHS) policies and monitoring effectiveness.

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

COMMITTEE	MATERIAL MATTERS CONSIDERED
Social and Ethics	During the 2018 financial year, the Committee, amongst others, focused on the following: ▪ Reviewed the Transformation Plan 2017/18 ▪ Considered matters relating to the stakeholder management, stakeholder engagement particularly youth in the business ▪ Considered matters relating to group supply chain and transformation B-BEEE and enterprise development ▪ Considered matters relating to occupational health, safety and environmental management ▪ Corporate Social Investments

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

	BOARD MEETINGS					
BOARD MEMBER	Total	11 Jul 17	Joint PRT and S&E 11 Jul 17	18 Oct 17	Joint PRT and S&E 24 Oct 17	7 Feb 18
Ms KPS Ntshavheni (Chairman)	4/4	√	√	√	√	√
Ms R Mokoena [1]	0/0	-	-	-	-	-
Ms PM Mahlangu	4/4	√	√	√	√	√
Ms M Kgomongoe [2]	1/2	-	-	A	√	√
STANDING INVITEES						
Mr Z Ntshepe	3/4	√	√	√	A	√
Mr Z Mhlwana	4/4	√	√	√	√	√
INVITEES						
Lt Gen TM Nkabinde (rtd)	2/2	-	√	-	√	-
Mr T Msomi [3]	1/1	-	√	-	-	-

A Apology
1. Resigned 14 June 2017
2. Appointed on S&E from 25 August 2017
3. Resigned 26 July 2017

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE (NEW BOARD RENAMED THE COMMITTEE PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE)

Denel's personnel, remuneration and transformation committee, referred to as the PR&T committee, comprises only independent non-executive directors. Its scope of responsibilities is detailed in the terms of reference, which are reviewed and approved annually by the Board.

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

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

The PR&T committee provides the following support activities to the Board of directors:

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

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

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

COMMITTEE	MATERIAL MATTERS CONSIDERED
Personnel, Remuneration and Transformation	During the 2018 financial year, the Committee, amongst others, focused on the following: ▪ Considered the long-term incentive plan 2018 ▪ Reviewed and recommended for adoption to the board the salary increases effective 1 April 2018 ▪ Considered the retention strategy transformation and skills development ▪ Considered HR policies

DETAILS REGARDING ATTENDANCE OF COMMITTEE MEETINGS ARE REFLECTED BELOW:

	BOARD MEETINGS					
BOARD MEMBER	Total	11 Jul 17	18 Oct 17	Special 24 Oct 17	Special 30 Nov 17	7 Feb 18
Lt Gen TM Nkabinde (rtd) (Chairman)	5/5	√	√	√	√	√
Ms PM Mahlangu	5/5	√	√	√	√	√
Mr T Msomi [1]	0/1	A	-	-	-	-
Ms KPS Ntshavheni [2]	4/4	-	√	√	√	√
STANDING INVITEES						
Mr Z Ntshepe	4/5	√	A	√	√	√
Mr Z Mhlwana	4/4	√	√	-	√	√

A Apology
1. Appointed on PRT from 1 March 2017, resigned 26 July 2017
2. Appointed on PRT from 25 August 2017

EXECUTIVE COMMITTEE

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

CODE OF ETHICS

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

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

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

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

Ethics matters are monitored and reported to both the audit committee and the S&E committees.

INTERNAL CONTROL

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

INTERNAL AUDIT

The independent internal audit function which was previously outsourced to an external firm has been fully insourced in the current financial year, under the authority of the Chief Audit Executive (CAE). As a permanent Denel employee, the CAE administratively reports to the GCEO and has unrestricted access to the chairman of the Board and the chairman of the audit committee committee. An internal audit charter is in place, which regulates the interaction between the group, management, internal auditors and the board. For the sake of transparency and accountability, the charter is tabled annually to the audit committee for consideration and approval. The Board is confident that the internal auditor department has discharged its duties fully in terms of the internal audit charter.

BUSINESS UNITS

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

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

COMBINED ASSURANCE

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

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

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

COMBINED ASSURANCE

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

Management's assurance role

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

Oversight's assurance role

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

Role of independent assurance

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

FRAUD AND CORRUPTION

Denel's fraud and corruption prevention strategy is underpinned by the group's values of integrity, along with the requirements of the PFMA to prevent financial misconduct and fraud, and the principles of the UN Global Compact. The S&E committee advises the board on good corporate citizenship and ethical relationships in implementing the group strategy.

FRAUD AND CORRUPTION AWARENESS

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 system provides for the segregation of duties to promote transparency and accountability at various levels of the group.

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

DETECTION OF FRAUD AND CORRUPTION

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. Fraud detection tests were also included in the external and internal auditors' procedures.

To embed integrity in the organisation, Denel decided to introduce lifestyle audits for executives and senior staff. Processes are being put in place to effectively implement the audits.

WHISTLE-BLOWING

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

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

0800 20 48 80

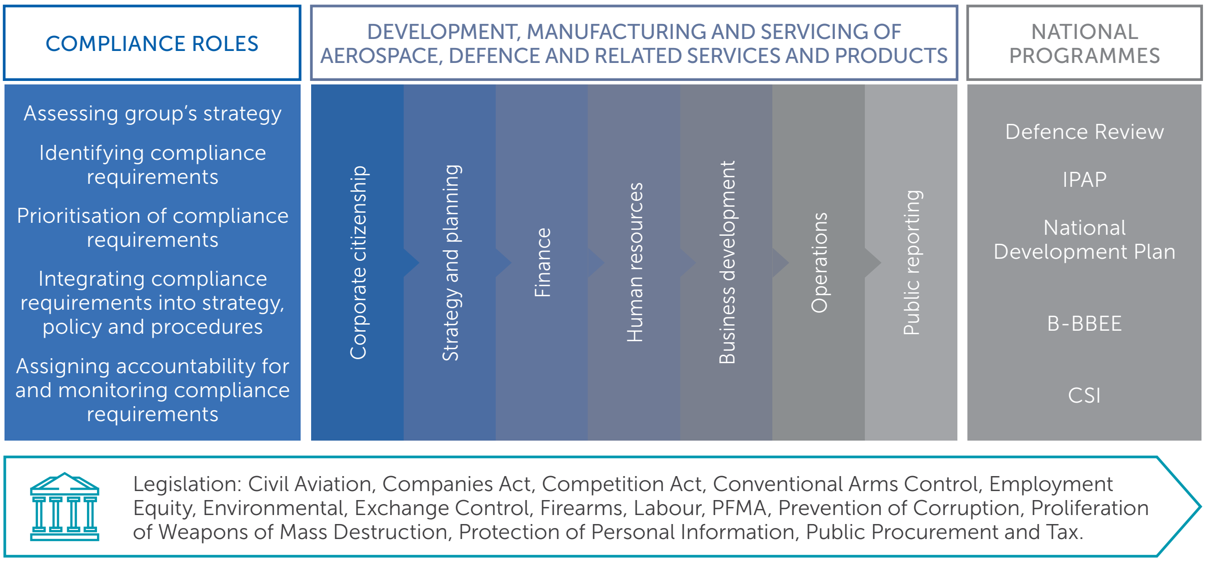
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

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

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

LEGAL COMPLIANCE FRAMEWORK

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



REMUNERATION REPORT

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

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

The remuneration strategy seeks to:

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

EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS' REMUNERATION

The PR&T committee reviews the remuneration of the executives. The committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration provided by the DPE for SOCs. Annual salary increases are approved by the shareholder at the AGM.

The following amounts were either paid or accrued to the executives during the year:

EXECUTIVES	SALARIES R'000	PENSION FUND CONTRIBUTION R'000	MEDICAL AID CONTRIBUTION R'000	OTHER [7] R'000	COMPANY CONTRIBUTION R'000	SHORT-TERM INCENTIVE R'000	LUMP SUM/ LOSS OF OFFICE R'000	TOTAL 2017/18 R'000	TOTAL 2016/17 R'000
EXECUTIVE DIRECTORS									
Mr R Saloojee	-	-	-	-	-	-	-	-	6407
Mr F Mhlontlo	-	-	-	-	-	-	-	-	9 827
Mr Z Ntshepe [1]	2 777	99	56	404	177	-		3 513	2 951
Mr ZM Mhlwana [2 and 6]	2 977	80	71	341	268	-	3 286	7 023	3791
Sub-total	**5 754**	**179**	**127**	**745**	**444**	**-**	**3 286**	**10 536**	**22 976**
PRESCRIBED OFFICERS									
Ms N Davies [3]	1 588	59	96	206	105	-	-	2 054	2 231
Mr T Kleynhans	2 599	96	128	327	170	-	-	3 320	1 435
Mr DTT Mbele	3 303	119	90	275	212	-	-	3 999	2 417
Ms NF Msiza	-	-	-	-	-	-	-	-	1 603
Ms V Qinga	1 685	62	94	140	111	-	-	2 093	2 056
Mr JM Wessels	-	-	-	-	-	-	-	-	1 006
Ms V Xaxa [4 and 6]	1 712	62	55	143	111	-	1 632	3 715	-
Mr O Mothudi [5]	612	25	22	51	45	-	-	754	-
Sub-total	**11 500**	**423**	**486**	**1 141**	**753**	**-**	**1 632**	**15 936**	**10 748**
Total	**17 255**	**602**	**612**	**1 887**	**1 198**	**-**	**4 918**	**26 472**	**33 724**

1. *Appointed as GCEO on 1 November 2017*
2. *Appointed as GCEO on 1 November 2017*
3. *Resigned on 31 January 2018*
4. *Appointed as Group Company Secretary on 1 June 2017*
5. *Appointed as Group Internal Audit Executive on 1 September 2017*
6. *Includes lump sum payment on variation of contract from permanent to contract basis*
7. *Other includes 13th cheques and allowances*

SHORT-TERM INCENTIVE

Payment of short-term incentives, referred to as performance pay, is linked to the performance of the company and the individuals. Individuals qualify for performance pay when performance targets have been exceeded based on gain share principles. The relevant performance pay pool is determined based on the excess of net profit achieved above the performance target. Other performance indicators are used to moderate the performance pay allocations.

The following short-term incentives were either paid or accrued to the executives during the year:

EXECUTIVES	2017/18 R'000	2016/17 R'000
EXECUTIVE DIRECTORS		
Mr R Saloojee	-	-
Mr F Mhlontlo	-	-
Mr Z Ntshepe	-	1 470
Mr ZM Mhlwana	-	1 723
Sub-total	**-**	**3 193**
PRESCRIBED OFFICERS		
Ms N Davies	-	966
Mr T Kleynhans	-	1 344
Mr DTT Mbele	-	1 680
Ms NF Msiza	-	-
Ms V Qinga	-	966
Mr JM Wessels	-	-
Ms V Xaxa	-	-
Mr O Mothudi	-	-
Sub-total	**-**	**4 956**
Total	**-**	**8 149**

As the company did not meet its targets for the 2017/18 financial year, there was no short-term bonus pay out.

LONG-TERM INCENTIVES

Denel has in the past not implemented a long-term incentive scheme, despite it being provided for in the DPE remuneration guidelines. This was mainly due to financial constraints the group faced at the time. In the light of improving financial performance, the Board has recently approved the implementation of such a scheme for qualifying executives.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The PR&T committee assists the board in reviewing non-executive directors' fees for discussion with the shareholder. Market benchmarks and the DPE's remuneration guidelines for SOCs are used to determine and make recommendations on non-executive directors' fees. Remuneration for non-executive directors is based on the shareholder remuneration guidelines, approved by the shareholder representative and confirmed at the AGM. The shareholder approved a 6% increase in fees for non-executive directors at the AGM held on 25 August 2017. Non-executives receive a fee paid by Denel based on their attendance of meetings.

The following amounts were either paid or accrued to the non-executive directors during the year:

NON-EXECUTIVE	2017/18 R'000	2016/17 R'000
NON-EXECUTIVE DIRECTORS		
Mr LD Mantsha	859	891
Ms M Kgomongoe	336	367
Ms PM Mahlangu	306	279
Ms N Mandindi	-	96
Ms R Mokoena	23	223
Mr NJ Motseki	-	204
Mr TJ Msomi	74	255
Lt Gen TM Nkabinde (rtd)	313	290
Ms KPS Ntshavheni	360	345
Total	2 271	**2 950**

As the company did not meet its targets for the 2017/18 financial year, there was no short-term bonus pay out.

CONSOLIDATED AN
FINANCIAL STATEM

PART SEVEN

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DIRECTORS' REPORT

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

Denel provides turnkey solutions of defence equipment to its clients by designing, developing, integrating and supporting artillery, munitions, missiles, aerostructures, aircraft maintenance, unmanned aerial vehicles systems and optical payloads based on high-end technology. The significant operating subsidiaries and divisions are set out in note 36 of the annual financial statements.

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

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

The focus areas of the Board were on formulating a turnaround strategy, addressing governance, liquidity, and contract management whilst concluding the release of the 2018 results.

Denel posted a loss of R1 758m (2016/17: Profit R282m) mainly due to lower revenue and poor contract management; slippages on the Hoefyster development contract; losses recognised on completion of the MBARC I programme and delays on the AV8 programme. Revenue and the gross loss was materially affected resulting in Denel recording a revenue of circa R5bn compared to a prior year of R8bn; and gross loss of R121m compared to the prior year of R1 821m gross profit. The lower activity levels resulted in a lost margin of circa R600m and under-recoveries of R754m for the year. Development delays in two major projects required an adjustment in projected cost to completion of Project Hoefyster (R248m) and the MBARC I project (R319m).

The MBARC I project has been completed and was delivered in June 2018; and a recovery plan to complete the Hoefyster

FINANCIAL AND OPERATIONAL REVIEW

	GROUP		
	2017/18	2016/17 (Restated)	2015/16 (Restated)
	Rm	Rm	Rm
Revenue	4 998	8 057	8 422
Gross (loss)/profit	(121)	1 821	1 743
Other income	160	135	288
Operating expenditure	(1 726)	(1 555)	(1 455)
Earnings before interest and tax (EBIT)	(1 461)	556	708
Net finance costs	(292)	(251)	(193)
Net (loss)/profit	(1 758)	282	476

development within revised cost projections during the 2018/19 financial year is underway. From a review of Denel's business units, product portfolios, the international and local markets, the company's business processes and cost structures, it is evident that certain of our entities and cost structures require restructuring. The effect of the restructuring cost will impact negatively during the 2018/19 financial year before the group returns to profitability in the following years. For further information refer to the operations and financial sections in the integrated report.

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. An amount of R2.34bn of debt is unconditionally guaranteed by the government and total debt amounted to R3.030bn (2016/17: R3.429bn) at year-end. This resulted in net external interest paid of R292m (2016/17: R251m), which excludes the unwinding of interest on the long-term provision for remediation. Refer to the funding section of this report.

IMPAIRMENT OF ASSETS

SEEKER 400

Denel assessed and impaired the Seeker 400 (Unmanned Aerial Vehicle) intangible asset with R64.5m in accordance with the accounting standard on impairment of assets after considering current observable information. Further details are disclosed in note 39.1 of the consolidated financial statements. Although there is market interest in the Seeker 400 capability, short term returns and cash flow cannot be guaranteed as the nature and turnaround of defence contracts are long term. Denel shall re-assess at the end of the following reporting period if there is any indication that the recoverable amount of Seeker 400 intangible asset has increased as a result of favourable observable information at that point in time.

DENEL VEHICLE SYSTEMS GOODWILL

Denel performed an impairment test on Denel Vehicle Systems and impaired goodwill of R217m. 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 11 for further details.

LMT LOAN IMPAIRMENT

Denel entered into a loan transaction with its subsidiary Land Mobility Technologies (LMT) Holdings SOC (RF) wherein Denel agreed to provide certain amounts of money as loan financing in terms of the memorandum of incorporation. It was agreed between the parties that all amounts will be settled on 1 November 2018. In assessing the recoverability of this loan, management considered the latest cash forecast of LMT and LMT will not be in a position to repay this loan when due, or in the next twelve months. The value of the loan at 31 March 2018 was R314m. This loan was impaired in the current year.

SIGNIFICANT CONTRACTS

The contracts discussed below had a significant impact on the reported financial results or will continue to have an impact on the group's performance.

HOEFYSTER

Denel is contracted by the local customer for the development and production of the new-generation infantry combat vehicle product system (Badger), namely Project Hoefyster. The base value of the programme is R9.4bn. Progress on the development phase slipped due to technical difficulties which has resulted in the delivery of the first 88 Badger Infantry Combat Vehicles (ICV) to the South African Army being delayed to 2022. A major re-planning effort, which is being negotiated with the client, is underway to determine the new contractual schedule going forward. In the 2018/19 financial year the plan is to address outstanding requirements preventing production from commencing with deliveries of an initial eight systems used for process qualification.

AIR-TO-AIR MISSILE

The development of the A-Darter 5th generation air-to-air missile, a collaboration programme between the governments of SA and Brazil, is now in the qualification phase which will be performed during the 2018 calendar year. The value of the programme is just over R2bn and revenue of R46m (2016/17: R101m) was recognised during the year.

The follow-on production contract for the SAAF with a value of R939m was placed on Denel during March 2015 and revenue to the value of R223m (2016/17: R219m) was recognised during the year. The outputs of the contract are the industrialisation and manufacturing of the A-Darter missile. The order also includes the establishment of a logistic support capability required for the SAAF to operate the missile. The initial batch of four acquisition trainer missiles is planned for delivery in the 2018/19 financial year with the final batch of operational missiles scheduled for delivery in the 2021 calendar year.

SEEKER 400

The Seeker 400 system produced for the SANDF has been successfully completed with the handover of the system during the 2017/18 financial year. Finalisation of the military type certification will follow in the last quarter of 2018 after the end user's operational tests and evaluation. This is expected to be accomplished in the 2018/19 financial year and marks the completion of the programme. The value of the programme is R339m of which R333m has been invoiced to date.

PRECISION-GUIDED MUNITIONS

Denel designed and developed the Umbani bomb kit system to improve the accuracy and range of the Mk81 and Mk82 bombs. It provides the user with an all-weather, day or night operational capability, utilising GPS/INS guidance or imaging infrared (IIR) with a complete automatic target recognition (ATR) capability or a semi-active Laser (SAL) seeker for increased targeting accuracy. The programme experienced a number of delays during the development phase, resulting in a production lag. All the outstanding deliverables on the contract was successfully completed during the 2018 calendar year.

A centre of excellence for manufacturing of these weapons has been established in the buying country as a part of a joint venture established by Denel and the country's partner, which also contributes to Denel's offset obligations. The programme accounted for revenue of R308m (2016/17: R168m) during the year.

AIRBUS A400M

Denel is contracted as a programme partner for the design, development, manufacture, supply and supporting activities of the wing-to-fuselage fairing, top shells, and ribs, spars & sword structural components as well as cargo hold system work packages for the Airbus A400M military transport aircraft. The Airbus contract was historically loss-making and the DPE indemnified these losses up to R1.6bn.

Denel was unable to meet all its major A400M deliverables for the 2017/18 financial year, due to the liquidity challenges. Of the contracted 22 wing-to-fuselage fairing and top shell contracted ship sets, Denel delivered 14 and 18 respectively. Denel was also unable to fulfil its contractual commitments on the ribs, spars & sword and cargo-hold system work packages. The total programme value of the five work packages amounts to R3.6bn and revenue of R321m was recognised during the year.

DENEL MEDICAL BENEFIT TRUST

The group provides a post-retirement medical subsidy to current and former employees who were appointed before 1 April 2000. The assets and liabilities are accounted for separately in the Trust and are not included in the consolidated annual financial statements of the group. The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise. Although certain businesses have been unbundled from the group, the total liability remains with Denel. Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit.

To date 86.5% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy. Denel will ensure that, through due process, the open-ended liability risk is mitigated in terms of the remaining beneficiaries. The actuarial value of the fund and other disclosures are provided in note 35.1 of the consolidated annual financial statements.

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 R2.34bn is government guaranteed with the guarantee maturing on 30 September 2018. Denel has applied to the shareholder to extend the guarantee for a further 3-year period. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R2.34bn (2016/17: R1.85bn). The debt was issued through commercial paper. The balance of the debt of R690m is unsecured. The group's borrowings are at an average interest rate of 8.51% (2016/17: 8.64%) that includes an average overnight borrowing rate of 9.30% (2016/17: 9.38%), and an average commercial paper programme interest rate of 8.51% (2016/17: 8.53%), which resulted in borrowing cost of R359m (2016/17: R352m) during the year.

Fitch Ratings downgraded Denel's long-term rating from AAA (zaf) and short-term rating F1+ (zaf) to AA- with a negative outlook and confirmed the short-term rating at F1+. The rating agency is relying strongly on continued shareholder support, strong operational performance that is led by Denel's Land Systems and Dynamics divisions, as well as Denel's order book of R18bn. The agency further noted concern on the short-term nature of the Government guarantees.

The negative cash flows from operations (R716m) is a serious concern caused by the delay in deliveries and the inadequate working capital management.

GOING CONCERN AND LIQUIDITY

Although the financial year ending 31 March 2019 is of primary focus in considering this requirement, this representation also assesses the going concern status of Denel over the five-year period ending 31 March 2023. The assessment was based on reviewing the solvency and liquidity position of Denel, taking into account the revised 2018/19 corporate plan.

Whilst Denel has been posting profits for the past seven years, the significant losses in 2017/18 have negatively affected Denel's reserve and shareholders' equity.

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

- Reviewing the performance of the group for the year ended 31 March 2018 with a net loss of R1.75bn (Net Profit 2016/17:R282m) and projected losses in 2018/19;
- Noting the rating downgrade by Fitch whilst still on investment grade, however with a negative outlook. The board considered the impact this may have in accessing future funding;
- Reviewing the cash flow forecast for the period ending 31 October 2019. The forecast included assumptions that an additional R1.4bn inflow of cash will be raised through a combination of debt against the government guarantees,

the selling of non-core assets and introduction of strategic partnerships;
- Considering the commercial viability of the business including the major contracts included in the order book (R18bn) and pipeline (R40bn);
- Noting that Denel was able to raise R2.8bn in the investor market in September 2018 and is confident that it will be able to raise the remaining R566m against the government guarantees;
- Noting the continued support of its Shareholder as a going concern and received extended government guarantees for a period of five years until September 2023;
- Considering the existing strategic relationship between the Department of Defence (DoD) and Denel. This has been demonstrated by the continued base load work received on critical capabilities;
- Considering the positive sentiments that exists towards Denel and continued, expressed interest in Denel products, capabilities and IP from the foreign markets; and
- Noting the improved investor sentiments towards Denel subsequent to the changes of the board leading to improved governance.

The board has implemented the following strategies in order to mitigate the risks on going concern:

- Approved the implementation of the turnaround strategy which includes reducing the cost structure to acceptable levels to sustain Denel into the future, improving programme delivery to clients, selling of non-core assets and the generation of bankable cash profits;
- Positive engagements with three major banks (forming a lending consortium) to provide additional access to funding, the discussions of which are at an advanced stage and the board is confident of its outcome; and
- Implemented measures to improve the governance structure within Denel.

Based on the above factors, whilst there are material uncertainties regarding the going concern due to liquidity concerns, the directors are satisfied that given the mitigating steps taken by the board, Denel will continue operating as a going concern for the 12 month period to 31 October 2019. The group annual financial statements were therefore prepared on this basis.

GOVERNANCE

Denel was affected by state capture and its symptoms of fraud, corruption and malfeasance that engulfed some of the state-owned companies in the country. The Group experienced governance lapses resulting in serious reputational damage and loss of credibility with stakeholders as well as negative publicity. The Board is conscious of the role Denel plays in the local industry especially the DoD and Armscor, the global defence supply chain and the contribution towards the national developmental agenda. To enable Denel to fulfil this role will require a demonstration of, and commitment to, sound governance and eradication of fraud and corruption. The Board is committed to fully cooperate with the investigations by the Special Investigations Unit commissioned by the shareholder to investigate fraud, corruption and malfeasance in state-owned companies as well as the commission on state-capture appointed by the President. The Board has appointed external forensic firms to independently investigate malfeasance, fraud and corruption including irregular appointment of service providers or awarding of contracts with a view to taking disciplinary and/or civil or criminal action where appropriate.

The Board considers the departure of the former Group CEO and on-going disciplinary action against the Group FD as an opportunity to ensure leadership that will stand scrutiny and espouse integrity and ethical values across the Group. The Group has commenced roadshows with critical stakeholders as part of the process of the governance turnaround and the Board looks forward to constructive engagements and support of the stakeholder.

The Board is in the process of formulating a governance turn around to restore Denel's reputation and credibility with stakeholders. The governance turnaround will ensure a transparent system of internal control and integrity of information for both internal and external stakeholders through a reliable and credible system of assurance. The Board recognizes that it is not in all cases that governance lapses result from failures in systems but may also be caused by those in authority who may be intent to subvert controls for corrupt or fraudulent motives. This will be addressed by the empowerment of employees at all levels, especially those that are part of the system of internal control to assert themselves and blow the whistles without fear. The Board has directed the executive to re-launch the group's ethics and whistle-blowing programmes to instil a culture of integrity as part of the governance turn around.

The group has commenced with the process to deregister Denel Asia and the Board is committed to the timeous conclusion of this matter.

AUDIT OUTCOME

Denel was audited by the Auditor General for the first time in the 2017/18 financial year. Previously independent firms were appointed as Denel's external auditors. Denel received with grave concern the disclaimer opinion by the Auditor-General. The audit highlighted, amongst others, a recurring incorrect application of revenue recognition in the prior years, lapses in controls and absence of an effective system to govern irregular, fruitless and wasteful expenditure. It is also concerning that the previous audits did not detect these for management to address. An audit turnaround plan has been developed to resolve the Auditor-General's matters which will address:

- the strengthening of internal controls;
- the implementation of consequence management to those individuals that have been found guilty of misconduct and where applicable criminal charges to be laid against them; and
- improving the skills capacity in specifically identified areas.

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 R200m (2016/17:R116m). However during the audit, a further R313m irregular expenditure was identified leading to a total of R513m irregular expenditure disclosed. The significant increase in irregular expenditure is as a result of non-compliance to the PFMA and Treasury Regulations. To address the key areas identified there are a number of actions to be taken by management including:

- Taking disciplinary and or other actions against individuals where there is evidence that the contravention was wilful and deliberate;
- The training of personnel to ensure understanding of the legislation and required application; and
- Restructuring the supply chain environment 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 12, 13 and 37 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. There was no change in the authorised share capital of the company for the financial year under review.

DIVIDENDS

No dividend was recommended for the 2017/18 year (2016/17: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

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

EXTERNAL AUDITORS

SizweNtsalubaGobodo was the company auditors for the year that ended on 31 March 2017, at which point their contract came to an end and Nkonki Inc was appointed. On 27 April 2018, the Auditor General withdrew its concurrence to this appointment and resorted to perform the external audit.

The consolidated annual financial statements are audited by the Auditor General and their appointment was confirmed at the annual general meeting on 29 October 2018 as the statutory auditors.

GROUP COMPANY SECRETARY

The group company secretary for the period under review was Ms Vuyo Xaxa. Her business and postal address, which is also the address of the registered office of the company, is stated below:

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

EVENTS AFTER REPORTING PERIOD

DIRECTORATE

On 9 April 2018 the following non-executive directors were replaced by the Shareholder:

Ms PM Mahlangu
Lt Gen TM Nkabinde (rtd)

The following board members resigned during the year:

Ms R Mokoena – 14 June 2017
Mr TJ Msomi – 26 July 2017
Mr LD Mantsha – 28 February 2018
Ms M Kgomomgoe – 4 April 2018
Ms KPS Ntshavheni – 5 April 2018

On 23 May 2018 the following non-executive directors were appointed:

Ms MW Hlahla
Mrs GT Serobe
Mr NR Kunene
Prof T Marwala
Dr SP Sibisi
Lt Gen TT Matanzima (rtd)
Ms SR Rabkin
Mr T Sadik
Mr TH Magazi
Ms N Siyotula
Mr MM Mnisi
Gen S Nyanda (rtd)
Ms H Nel
Ms MK Lehloenya

RHEINMETALL DENEL MUNITIONS FIRE

On 4 September 2018, an explosion occurred at Rheinmetall Denel Munitions (Pty) Ltd (RDM) site in Somerset West, near Cape Town that resulted in a fire. Denel is a 49% strategic partner to Rheinmetall, a company of German origin. The two companies are run independently of each other with different boards and management structures. The Board of Directors and Management of Denel have been deeply saddened by the tragic events that resulted in a number of fatalities at Rheinmetall Denel Munitions premises. It is heart-breaking that colleagues lost their lives in such tragic circumstances and our deepest condolences go to their families.

On 29 October 2018, the board considered and approved the integrated report and the consolidated and separate annual financial statements for the year ended 31 March 2018.

Monhla Hlahla
Chairperson of the Denel board

Michael L Kgobe
Acting Group Chief Executive Officer

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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

Vuyokazi Xaxa
Group Company Secretary

REPORT OF THE AUDIT COMMITTEE

The Audit Committee presents this report for the financial year that ended 31 March 2018 in terms of the requirements of the Public Finance Management Act (PFMA), Section 94(7) (f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa for the financial year ending 31 March 2018.

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

The Committee presenting this report was appointed on 7 April 2018 and its composition is set out on page 91 of the Integrated Report. The Committee relied extensively on the representations made by management, as well as the internal and external auditors.

DISCHARGE OF RESPONSIBILITIES

The Board is satisfied that the Audit Committee has discharged its responsibilities in accordance with the King Code IV, the Companies Act and the PFMA, and further responsibilities assigned to it by the Board as contained in the terms of reference detailed on page 71.

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

INTERNAL CONTROLS

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

The Committee observed together with the external auditors, that:

- there has been overall lapses on the control environment, including weak internal financial controls and poor management of irregular, fruitless and wasteful expenditure;
- significant weaknesses in the internal controls and incorrect application of International Financial Reporting Statements (IFRS) were the main drivers for the regression to a disclaimed audit outcome; and
- overall inadequate corporate governance of the company and requires significant improvement

Based on discussions with key internal and external stakeholders including the Department of Public Enterprises, management, organised labour and the external auditors, the committee advised the Board that a significant improvement in the control environment across Denel, including its subsidiaries is needed to ensure compliance with relevant legislation. Whilst there is a need for significant improvement, the committee noted that there was no complete breakdown of internal controls.

GOING CONCERN

The Committee reviewed management's assessment of the going concern premise of the Group and the Company and recommended to the Board that the group and the company could be considered a going concern for the foreseeable future. In performing its assessment, the Committee, along with management, engaged loan lenders and made them aware of the negative results for 2017/18 as well the deteriorating audit outcomes. We further considered the impact of this on the going concern basis adopted. The Committee assessed liquidity, taking into account the latest cashflow forecasts and the steps taken by management to ensure the repayment of debt occurs in the next 12 months. The aspects considered in the going concern assessment have been detailed on note 40.

EXTERNAL AUDITORS

On 27 April 2018 the Auditor General of South Africa (AGSA) withdrew its concurrence of the appointment of Nkonki Inc. and resorted to performing the audit. The appointment was approved by the Board and the shareholder, andshareholder and was ratified at the annual general meeting held on 29 October 2018.

INTERNAL AUDIT

Denel has an in-house internal audit function since 2016/17. The Committee has oversight responsibility for the internal audit function. The Chief Audit Executive is appointed by the Committee and has direct access to the Committee, primarily through its chairman. The internal audit function has the responsibility of reviewing and providing assurance on the adequacy of internal controls across the group's operations, playing an integral role in the governance of risk. During the year-end audit, the AGSA found that the internal audit function regressed during the year and as part of the governance turnaround, a decision was made to outsource the Internal Audit function.

INVESTIGATIONS

As a result of Denel being implicated in state capture, the Board has placed a strong emphasis on the restoration of credibility on both Denel and its leadership. To this end, Denel is at an advanced stage of discussing a proclamation with the Special Investigating Unit to investigate allegations of malfeasance, fraud and corruption. The focus areas will include supply chain, procurement and contracting with customers. In addition to current internal investigations, and in consultation with the Special Investigating Unit and the Department of Public Enterprises, Denel has initiated lifestyle audits for members of the Board and senior management.

GOVERNANCE TURN-AROUND

The Board has launched a governance turnaround to address the governance weaknesses in the organisation and as well as addressing the weaknesses identified by the AGSA. This includes strengthening the management team, optimising the executive committee, repositioning the internal audit department and appointing on an acting capacity, the Group Chief Executive Officer and the Group Chief Financial Officer. The investigation capacity in Denel has been strengthened by the appointment a panel of independent investigators to conduct investigations into allegations of corruption and malfeasance. Mechanisms have been put in place to assess areas of deficiency within the procurement area in order to ensure that irregular and fruitless and wasteful expenditure are prevented or detected and corrected, and appropriate consequence management undertaken.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The Committee reviewed the annual consolidated financial statements of the group and the annual financial statements of the company as well as the accounting policies and practices of the Group. The Committee noted that audit opinion of Denel has regressed from financially unqualified with findings to a disclaimed audit opinion in the current year.

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

CONCLUSION

The Committee has evaluated the financial statements of Denel and the Group for the year ended 31 March 2018 and considers that they comply, other than the matters disclaimed in the external auditor's report, with the requirements of the Companies Act, the PFMA and the International Financial Reporting Standards. The committee has recommended to the Board that Denel be reported as a going concern.

The Committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2018 for approval by the Board on 29 October 2018.

On behalf of the Audit Committee.

Mr T Sadik
Chairman of the Audit Committee

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

Report on the audit of the consolidated and separate annual financial statements

DISCLAIMER OF OPINION

1. I was engaged to audit the consolidated and separate financial statements of Denel SOC Limited and its subsidiaries (the group) set out on pages 100 to 214, which comprise the consolidated and separate annual statements of financial position as at 31 March 2018, the consolidated and separate income statements and statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the consolidated and separate annual financial statements of Denel SOC Limited and its subsidiaries. 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

REVENUE

3. Denel SOC Limited did not apply the principles of International Accounting Standard (IAS) 11, *Construction contracts* correctly when recognising construction revenue. The calculation used by management to determine the stage of completion was incorrect, as the contract revenue was not reduced with the penalties incurred. Advance payments received relating to foreign construction contracts were also not derecognised at the initial recognised amounts of the advance payments, as required by IAS 21, *Effects of changes in foreign exchange rates*; instead, these were derecognised at the spot rate prevailing at the date of invoicing. Additionally, amounts due from customers but not yet invoiced were not separately presented in the statement of financial position. Furthermore, all related disclosures were not made as required by IAS 11, *Construction contracts*. I was unable to confirm whether revenue had been recorded correctly by alternative means. I was therefore unable to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the separate and consolidated annual financial statements.
4. LMT Holdings SOC Limited (RF), which is a subsidiary of Denel SOC Limited, did not have a proper accounting system in place to account for all construction revenue. Furthermore, the LMT group did not apply the principles contained in IAS 11, *Construction contracts* correctly and was unable to provide sufficient appropriate audit evidence for the assumptions used in determining the stage of completion. The entity's records did not permit the application of alternative audit procedures due to the lack of a proper accounting system for construction revenue. I was therefore unable to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated financial statements.
5. Denel Vehicle Systems (Pty) Ltd and Denel Aerostructures SOC Limited, both subsidiaries of Denel SOC Limited, did not account for construction contracts by allocating the contract revenue and contract costs in the accounting period in which the construction work was performed, as required by IAS 11, *Construction contracts*. Management at these entities incorrectly applied IAS 18, *Revenue* to contracts that met the definition of construction contracts, as these contracts are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. I was therefore unable to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated financial statements.
6. Consequently, I was unable to determine the impact on revenue stated at R4 998 million (2016-17: R8 057 million) (company: R3 754 million; 2016-17: R6 289 million). Furthermore, the following account balances and classes of transactions in the financial statements have been affected by the matters highlighted above. I was unable to determine the impact of this on the consolidated and separate financial statements.

   - Cost of sales stated at R5 119 million (2016-17: R6 236 million) (company: R3 903 million; 2016-17: R4 838 million)
   - Inventories stated at R2 830 million (2016-17: R2 623 million; 2015-16: R2 341 million) (company: R2 191 million; 2016-17: R1 773 million; 2015-16: R1 685 million)

- Trade and other receivables stated at R1 592 million (2016-17: R2 388 million; 2015-16: R2 872 million) (company: R1 412 million; 2016-17: R1 968 million; 2015-16: R2 415 million)
- Contract assets stated at R1 720 million (2016-17: R1 475 million; 2015-16: R1 599 million)
- Advance payments received stated at R1 844 million (2016-17: R2 029 million; 2015-16: R2 100 million) (company R1 844 million; 2016/17: R2 029 million; 2015/16: R1 937 million)
- Contract liabilities stated at R298 million (2016/17: R328 million; 2015/16: R412 million)
- Provisions stated at R296 million (2016/17: R421 million; 2015/16: R560 million) (company: R212 million; 2016/17: R287 million; 2015/16: R412 million)

PROPERTY, PLANT AND EQUIPMENT

7. Denel SOC Limited and its subsidiaries did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date in accordance with IAS 16, *Property, plant and equipment*. As a result, some assets reached zero book value while still in use. Additionally, management did not adequately assess property, plant and equipment for impairment at the reporting date in accordance with IAS 36, *Impairment of assets*. Furthermore, Denel SOC Limited did not add the initial estimate of costs to dismantling and removing the item and restoring the site on which it is located and the changes in the existing decommissioning and restoration and similar liabilities to assets in terms of IAS 16, *Property plant and equipment* and International Financial Reporting Interpretations Committee (IFRIC) 1, *Changes in existing decommissioning, restoration and similar liabilities*, respectively, but these were expensed in profit or loss. Management did not keep adequate records to correct the error for the current and prior years. I was unable to obtain sufficient appropriate audit evidence to determine the correct net carrying amount of property, plant and equipment and depreciation stated at R1 073 million (2016-17: R1 134 million) (2015-16: R1 210 million) (company: R605 million; 2016-17: (R632 million); 2015-16: (R685 million) and R129 million (2016-17: R142 million) (company: R92 million; 2016-17: R103 million), respectively, in notes 9 and 3 to the consolidated and separate financial statements, as it was impracticable to do so. I was also unable to determine the impact that any adjustments would have on the loss for the period, the accumulated loss, and the restatements note 39 to the consolidated and separate annual financial statements.

INVESTMENT IN SUBSIDIARIES

8. The group's investment in Turbomeca Africa (Proprietary) Limited was accounted for using the equity method as per IAS 28, *Investments in associates and joint ventures* until 31 August 2017. Subsequent to this date, the group gained control and consolidated its assets and liabilities as part of the group. I was unable to obtain sufficient appropriate audit evidence about the group's share of the net profit of Turbomeca Africa (Proprietary) Limited as at 31 August 2017, as I was not provided with the financial information by management. The entity also did not measure the assets and liabilities on the date it gained control to determine the goodwill or gain from a bargain purchase arising from the acquisition, as required by International Financial Reporting Standard (IFRS) 3, *Business combinations*.
9. Additionally, Denel SOC Limited did not assess the investments in subsidiaries for impairment in the separate financial statements, as required by IAS 36, *Impairment of assets* even though there were observable indications that the values of these investments had declined significantly during the period.
10. I was unable to obtain sufficient appropriate audit evidence by alternative means on the matters described in paragraphs 8 and 9 above. Consequently, I was unable to determine whether any adjustments to the following items as stated in the separate annual financial statements were necessary:
    - Investment in subsidiaries stated at R1 580 million as per note 12 to the financial statements
    - Investment in associate stated at R451 million
    - Share of profit in associate companies stated at R226 million as per note 13 to the financial statements

POST-RETIREMENT OBLIGATIONS

11. Denel offers post-retirement benefits to employees who were employed before 1 April 2000, as disclosed in note 35 to the consolidated and separate annual financial statements. The net defined benefit asset from the trust should have been accounted for in the financial statements of Denel SOC Limited in the current and prior periods in accordance with IAS 19, *Employee benefits*. The net defined benefit asset should be measured at the lower of the surplus of the defined benefit plan or the asset ceiling. I was unable to quantify the misstatement amount since it was impracticable to do so.

REVALUATION RESERVE

12. Property, plant and equipment accounted for using the revaluation model was transferred to investment properties in the prior years. The fair value adjustments to these properties were incorrectly accounted for in the profit or loss in consolidated and separate income statements and statements of comprehensive income instead of being recognised in the other comprehensive income as revaluation surplus, as required by IAS 40, *Investment properties*. The error occurred before the earliest prior period presented (2015-16). The opening balance of the revaluation reserve for the 2015-16 reporting period should have been adjusted with the

cumulative effect of the error. Consequently, due to the status of the accounting records, I was unable to determine the quantum of any necessary adjustments to the revaluation reserve amounting to R43 million stated in the consolidated and separate income statement and statements of comprehensive income in the consolidated and separate financial statements, as it was impracticable to do so.

OPERATING LEASES

13. I was unable to obtain sufficient and appropriate audit evidence to support transactions amounting to R91 million disclosed for non-cancellable leases due to the status of the accounting records of the group. I was unable to confirm the non-cancellable leases by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the operating leases stated at R1 017 million in note 31 to the consolidated and separate financial statements.

FINANCIAL RISK MANAGEMENT

14. Denel SOC Limited did not adequately disclose the nature and risks arising from financial instruments to which they were exposed during the period and at the end of the period, and how they were managing those risks, in the financial risk management note 33, in accordance with IFRS 7, *Financial instruments: disclosure*. The entity did not disclose firm commitments, sensitivity analyses for market risks, and the effect of prior period errors.

RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED

15. I was unable to obtain sufficient appropriate audit evidence for some of the restatements of corresponding figures as described in note 39 to the consolidated and separate annual financial statements. The restatement was made to rectify previous year misstatements, but the restatements could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures.

DEFERRED TAX AND INCOME TAX

16. The Denel group and company did not have adequate systems to ensure that the tax loss calculated, deferred tax and taxation note disclosures submitted for auditing were supported by accurate and complete underlying records. The accuracy and the completeness of deferred tax were also affected by the qualification of other accounting numbers in the financial statements, as these numbers have a bearing on the calculation of the tax loss and other temporary differences. In addition, management did not disclose in note 15, as part of the unrecognised deferred tax asset, the deferred tax movements between 2016-17 and 2017-18 in the separate annual financial statements, as required by IAS 12, *Income taxes*. I was unable to determine the correct adjustments to be made, as it was impracticable to do so. Consequently, I was unable to determine the adjustments to the tax disclosure note 7 and deferred tax disclosure note 15 as per the consolidated and separate annual financial statements and the consequential impact on the loss for the period and the accumulated loss in the consolidated and separate annual financial statements.

IRREGULAR EXPENDITURE

17. Section 55(2)(b)(i) of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) requires Denel SOC Limited and its subsidiaries to include particulars of all irregular expenditure incurred in the annual financial statements. The group did not have an adequate system for recognising all irregular expenditure and there were no satisfactory alternative procedures I could perform to obtain reasonable assurance that all irregular expenditure had been properly recorded. Consequently, I was unable to confirm the completeness of irregular expenditure relating to the current year stated at R513 million (2016-17: R116 million) as disclosed in note 38 to the consolidated and separate annual financial statements.

FRUITLESS AND WASTEFUL EXPENDITURE

18. Denel SOC Limited and its subsidiaries did not include fruitless and wasteful expenditure in the notes to the financial statements, as required by section 55(2)(b)(i) of the PFMA. The group did not have an adequate system for recognising all fruitless and wasteful expenditure and there were no satisfactory alternative procedures I could perform to obtain reasonable assurance that all fruitless and wasteful expenditure had been properly recorded.

KEY AUDIT MATTERS

19. Except for the matters described in the basis for disclaimer of opinion section, I have determined that there are no other key audit matters to communicate in this auditor's report.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

GOING CONCERN

20. I draw attention to note 40 to the financial statements, which indicates that Denel SOC Limited incurred a net loss of R1 758 million (company: R1 574 million) during the year ended 31 March 2018. As stated in note 40, these events or conditions, along with other matters as set forth in note 40, indicate that a material uncertainty exists that may cast significant doubt on Denel SOC Limited's ability to continue as a going concern.

EMPHASIS OF MATTER

21. I draw attention to the matter below.

RESTATEMENT OF CORRESPONDING FIGURES

22. As disclosed in note 39 to the consolidated and separate annual financial statements, the corresponding figures for 31 March 2017 have been restated as a result of errors in the financial statements of the public entity at, and for the year ended, 31 March 2018.

OTHER MATTER

23. I draw attention to the matter below.

PREVIOUS YEAR AUDITED BY A PREDECESSOR AUDITOR

24. The consolidated and separate annual financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and an audit report was issued on 24 January 2018. An unqualified audit opinion with compliance findings was expressed.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

25. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with the International Financial Reporting Framework and the requirements of the PFMA and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate annual financial statements that are free from material misstatement, whether due to fraud or error.
26. In preparing the consolidated and separate annual financial statements, the accounting authority is responsible for assessing the Denel group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Denel group or to cease operations, or has no realistic alternative but to do so.

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

27. My responsibility is to conduct an audit of the consolidated and separate annual 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.
28. I am independent of the Denel group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit of the consolidated and separate financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

REPORT ON THE AUDIT OF THE PERFORMANCE REVIEW REPORT

INTRODUCTION AND SCOPE

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic pillars presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
30. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
31. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic pillars presented in the annual performance report of the public entity for the year ended 31 March 2018:

STRATEGIC PILLAR	PAGES IN THE PERFORMANCE REVIEW REPORT
Strategic pillar – operational excellence	64
Strategic pillar – sustainable development	64
Strategic pillar – financial sustainability	64

32. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether

the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

STRATEGIC PILLAR 1: OPERATIONAL EXCELLENCE

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements. In addition, these indicators did not relate to the strategic objective that they aimed to achieve.

INDICATOR DESCRIPTION	STRATEGIC OBJECTIVE	REPORTED ACHIEVEMENT
Achieving contracted cash flow targets on major programmes	Programme delivery	60%
Achieving of cardinal milestones as contractually agreed by clients for selected major programs	Programme delivery	42%

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

INDICATOR DESCRIPTION	STRATEGIC OBJECTIVE	NUMBER OF INDICATORS
Retained strategic capabilities in support of the DoD&MVs requirements as per register	Security of supply and retention of capabilities in areas required by the DoD&MV	1
Research and development investment	Research and development	1

STRATEGIC PILLAR 2: SUSTAINABLE DEVELOPMENT

36. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

INDICATOR DESCRIPTION	REPORTED ACHIEVEMENT	AUDITED VALUE
B-BBEE (% of recognised spend)	71,46%	60%
Black women owned as a percentage of total local spend	15%	13.32%
Spend on companies with ownership by persons with disabilities	2,7%	2,40%
Small and emerging enterprises suppliers developed	55%	47%

STRATEGIC PILLAR 3: FINANCIAL SUSTAINABILITY

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

INDICATOR DESCRIPTION	STRATEGIC OBJECTIVE	NUMBER OF INDICATORS
Debt/equity ratio	Solvency	1
Cash generated from operations after restructuring	Cash	1
EBIT margin	Profitability management	1

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

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

ANNUAL FINANCIAL STATEMENTS

40. Consolidated and separate annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 55(1)(c)(i) of the PFMA.
41. The consolidated and separate annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted consolidated and separate annual financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the consolidated and separate annual financial statements receiving a disclaimer of audit opinion.

EXPENDITURE MANAGEMENT

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

ASSET MANAGEMENT

44. Denel SOC Limited provided financial assistance to its subsidiary without considering the solvency or liquidity of the company, in contravention of section 45(3)(a)(ii) and 45(3)(b)(i) of the Companies Act.

PROCUREMENT AND CONTRACT MANAGEMENT

45. Sufficient appropriate audit evidence could not be obtained that some contracts and quotations were awarded in accordance with the legislative requirements, due to a lack of proper record keeping.
46. Some goods, works or services were not procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.
47. The preference point system was not applied in some of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and treasury regulation 16A6.3(b).
48. Some contracts and quotations were awarded to bidders based on preferential points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
49. Some contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and its regulations.
50. Some quotations were awarded to bidders based on functionality criteria that were not stipulated in the original invitation quotations, as required by preferential procurement regulation 5(6) and (7) of 2017.
51. Some contracts and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated in the original invitation for bidding and quotations, in contravention of preferential procurement regulation 4(1) and 4(2) of 2017.
52. Some bid documentation for procurement of commodities designated for local content and production did not meet the stipulated minimum threshold for local production and content, as required by preferential procurement regulation 8(2) of 2017.

CONSEQUENCE MANAGEMENT

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

OTHER INFORMATION

54. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate annual financial statements, the auditor's report and those selected strategic pillars presented in the annual performance report that have been specifically reported in this auditor's report.
55. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
56. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate annual financial statements and the selected strategic pillars presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

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

LEADERSHIP

59. Instability in key leadership positions had a significant impact on the performance of the Denel group and contributed towards the decline in internal controls.
60. The leadership did not enforce the message of accountability for actions and outcomes. There was a lack of consequences for poor performance and transgressions at all entities within the group.
61. The leadership did not establish and communicate clear policies and procedures to enable and support the understanding and execution of internal objectives, processes and responsibilities. Assurance processes were not implemented in time to ensure that information relating to the preparation of the consolidated and separate annual financial statements was adequately reviewed; as a result, significant errors were identified by the external auditors.
62. Leadership did not implement adequate processes to ensure that the IT governance framework and IT strategy documents are approved at the correct level of governance; this included IT policies and procedures that were not adequately documented.

FINANCIAL AND PERFORMANCE MANAGEMENT

63. Proper record keeping was not implemented in a manner which ensured that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
64. Officials involved in the preparation and review of financial statements were not updated on the latest developments and changes to the accounting standards.
65. Management did not implement basic financial management disciplines and controls over daily and monthly processing and reconciling of transactions to enable effective decision-making by the leadership and timeous corrective action where required.
66. The review of compliance with applicable laws and regulations was ineffective. This was further compounded by a lack of understanding of the requirements of the PFMA and supply chain management requirements by officials across the group.
67. Management did not implement adequate controls to ensure that data backup management processes and disaster recovery requirements are in place for availability of business and financial data from an offsite facility.

GOVERNANCE

68. The internal audit unit was not adequately resourced to effectively assist in identifying internal control deficiencies and develop recommendations in respect of corrective action to be taken to address the internal control deficiencies identified.

OTHER REPORTS

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

INVESTIGATIONS

70. Allegations of maladministration on issues of supply chain management and other improper conduct highlighted in the state capture report have been brought to the attention of those charged with governance. At the date of this report, these investigations were still underway.

AUDIT-RELATED SERVICES

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

Pretoria
31 October 2018

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Notes	GROUP 2017/18 Rm	GROUP 2016/17 Restated Rm	GROUP 2015/16 Restated Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Restated Rm	COMPANY 2015/16 Restated Rm
ASSETS							
Non-current assets [1]		3 111	3 214	3 113	3 458	3 627	3 378
Property, plant and equipment	9	1 073	1 134	1 210	605	632	685
Investment properties	10	794	728	680	784	719	671
Intangible assets [1]	11	111	321	335	38	25	36
Investments in subsidiaries	12				1 580	1 486	1 486
Investments in associated companies	13.2	1 113	995	840	451	500	500
Loans and receivables	14	-	-	-	-	265	-
Deferred tax assets	15	20	36	48	-	-	-
Current assets		7 979	9 177	9 733	6 902	7 364	8 426
Inventories	16	2 830	2 623	2 341	2 191	1 773	1 685
Trade and other receivables [1]	17	1 592	2 388	2 872	1 412	1 968	2 415
Contract assets [1]	2	1 720	1 475	1 599	1 720	1 475	1 599
Advance payments made [1]	18	360	455	557	327	451	528
Loans and receivables	14	-	-	-	-	-	50
Financial assets at fair value through profit or loss	19.1	193	209	361	185	141	361
Cash and short-term deposits	20.2	1 269	2 021	2 003	1 061	1 556	1 788
Income tax receivables		15	6	-	6	-	-
Non-current assets held for sale	21	-	-	156	-	-	156
Total assets [1]		11 090	12 391	13 002	10 360	10 991	11 960

[1] *Amounts reported on as per the published 2016/17 and 2015/16 Integrated Reports restated. Refer tp note 39.*

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS AT 31 MARCH 2018

		GROUP			COMPANY		
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
EQUITY AND LIABILITIES							
Equity							
Issued capital	22.2	1 225	1 225	1 225	1 225	1 225	1 225
Share premium	22.3	4 951	4 951	4 951	4 951	4 951	4 951
Revaluation reserve		56	43	43	56	43	43
Accumulated loss [1]		(5 204)	(3 542)	(3 836)	(5 760)	(4 173)	(4 224)
Total equity attributable to equity holders of the parent		1 028	2 677	2 383	472	2 046	1 995
Non-controlling interest	23	(105)	4	19			
Total equity [1]		923	2 681	2 402	472	2 046	1 995
Non-current liabilities		2 241	3 268	4 459	2 452	3 091	4 209
Loans and borrowings	24	12	853	1 995	298	955	1 973
Advance payments received	25	1 844	2 029	2 090	1 844	2 029	1 927
Provisions	26.1	384	385	373	310	307	309
Deferred tax liabilities	15	1	1	1	-	-	-
Current liabilities [1]		7 926	6 442	6 141	7 436	5 654	5 756
Trade and other payables [1]	27	2 302	1 542	1 671	2 090	1 194	1 319
Contract liabilities [1]	2	298	328	412	291	328	412
Loans and borrowings	24	3 321	2 412	1 722	3 319	2 506	2 112
Financial liabilities at amortised cost	19.2	211	170	331	135	93	277
Advance payments received [1]	25	1 487	1 562	1 431	1 385	1 246	1 224
Income tax payables		5	1	11	4	-	-
Provisions	26.2	296	421	560	212	287	412
Preference dividends payable	23	6	6	3	-	-	-
Total liabilities [1]		10 167	9 710	10 600	9 888	8 945	9 965
Total equity and liabilities [1]		11 090	12 391	13 002	10 360	10 991	11 960

[1] *Amounts reported on as per the published 2016/17 and 2015/16 Integrated Reports restated. Refer note 39.*

CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

AS AT 31 MARCH 2018

		GROUP			COMPANY		
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
Revenue [1]	2, 39.5 & 39.6	4 998	8 057	8 422	3 754	6 289	6 835
Cost of sales [1]	3 & 39.6	(5 119)	(6 236)	(6 679)	(3 903)	(4 838)	(5 478)
Gross (loss)/profit [1]		(121)	1 821	1 743	(149)	1 451	1 357
Other income [2]	4	160	135	288	398	172	428
Other operating expenses [3]	3 & 39.1	(1 726)	(1 555)	(1 455)	(1 548)	(1 326)	(1 189)
Operating (loss)/profit [4]		(1 687)	401	576	(1 299)	297	596
Finance costs	6.1	(359)	(352)	(280)	(377)	(359)	(289)
Finance income [4]	6.2 & 39.7	67	101	87	92	113	73
Share of profit in associated companies	13.2	226	155	132			
(Loss)/profit before tax [4]		(1 753)	305	515	(1 584)	51	380
Income tax expense	7	(18)	(23)	(39)	(3)	-	-
Net (loss)/profit for the year		(1 771)	282	476	(1 587)	51	380
Other comprehensive income							
Items that will not be reclassified to profit and loss:							
Gain on investment property revaluation		13	-	-	13	-	-
Total comprehensive (loss)/income for the year net of tax [4]		(1 758)	282	476	(1 574)	51	380
(Loss)/profit for the year is attributable to:							
Equity holders of the parent [4]		(1 649)	294	459			
Non-controlling interest	23	(109)	(12)	17			
Refer footnote [4]		(1 758)	282	476			

1. *Amounts reported on as per the published 2015/16 Integrated Reports restated. Refer note 39.*
2. *Due to a formula error, Other income was overstated by R1m, R136m i.s.o. R135m w.r.t. the group and R173m i.s.o. R172m w.r.t. the company' respectively in the 2016/17 Integrated Report.*
3. *Amounts reported on as per the published 2016/17 Integrated Report restated. Refer note 39.*
4. *Amounts reported on as per the published 2016/17 and 2015/16 Integrated Reports respectively restated. Refer note 39.*

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

AS AT 31 MARCH 2018

		GROUP			COMPANY		
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
OPERATING ACTIVITIES							
Net cash flows from/(used in) operating activities		(716)	376	(701)	(816)	497	(712)
Receipts from customers		5 708	8 904	6 886	4 267	7 204	5 490
Payments to suppliers and employees		(5 979)	(8 333)	(7 457)	(4 860)	(6 598)	(5 986)
Cash from/(utilised in) operations	29	(271)	571	(571)	(593)	606	(496)
Increase in advance payments received	25	(260)	70	23	(46)	124	(107)
Interest paid	6.3	(351)	(338)	(231)	(369)	(345)	(240)
Interest received	6.3	65	100	87	89	112	75
Dividends received	4	108	-	25	108	-	56
Income tax paid	13	(7)	(27)	(34)	(5)	-	-
INVESTING ACTIVITIES							
Net cash flows from/(used in) investing activities		(105)	93	(995)	163	(105)	(995)
Purchase of property, plant and equipment		(42)	(63)	(158)	(41)	(45)	(107)
Proceeds from sale of property, plant and equipment		-	2	1	-	-	-
Proceeds from sale of investment properties	21	-	156	-	-	156	-
Purchases of intangible assets		(18)	(2)	(10)	(16)	(1)	(10)
Acquisition of subsidiary	11	(45)	-	(828)	(45)	-	(828)
Loans and receivables	8	-			265	(215)	(50)
Net cash inflows/(outflows) before financing activities		(821)	469	(1 696)	(653)	392	(1 707)
FINANCING ACTIVITIES							
Net cash (outflows)/inflows from financing activities		69	(451)	1 559	158	(624)	1 707
Repayments of interest bearing borrowings		(4 756)	(2 056)	(1 275)	(4 832)	(2 188)	(1 311)
Proceeds from interest bearing borrowings		4 825	1 605	2 834	4 990	1 564	3 018
Net increase/(decrease) in cash and cash equivalents		(752)	18	(137)	(495)	(232)	-
Cash and cash equivalents:							
At the beginning of the year		2 021	2 003	1 909	1 556	1 788	1 788
Entity acquired			-	231			
At the end of the year	20	1 269	2 021	2 003	1 061	1 556	1 788

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

AS AT 31 MARCH 2018

		Total equity attributable to equity holders of the parent						
	Notes	Issued capital [1] Rm	Share premium [2] Rm	Revaluation reserve [3] Rm	Accumulated loss Rm	Total Rm	Non-controlling interest [4] Rm	Total equity Rm
GROUP								
Balance at 1 April 2015		1 225	4 951	43	(4 295)	1 924	3	1 927
Preference dividends payable						-	(1)	(1)
Total comprehensive income (restated)				-	459	459	17	476
Profit for the year (reported previously)				-	378	378	17	395
Adjustments [5]	39			-	81	81	-	81
Balance at 31 March 2016 (restated) [5]		1 225	4 951	43	(3 836)	2 383	19	2 402
Balance at 1 April 2016 (reported previously)		1 225	4 951	43	(3 917)	2 302	19	2 321
Prior year adjustments		-	-	-	81	81	-	81
Balance at 1 April 2016 (restated)		1 225	4 951	43	(3 836)	2 383	19	2 402
Preference dividends payable						-	(3)	(3)
Total comprehensive income/(loss) (restated)				-	294	294	(12)	282
Profit/(loss) for the year (reported previously)				-	345	345	(12)	(12)
Adjustments [5]	39			-	(51)	(51)	-	
Balance at 31 March 2017 (restated) [5]		1 225	4 951	43	(3 542)	2 677	4	2 681
Balance at 1 April 2017 (reported previously)		1 225	4 951	43	(3 572)	2 647	4	2 651
Prior year adjustments		-	-	-	30	30	-	30
Balance at 1 April 2017 (restated)		1 225	4 951	43	(3 542)	2 677	4	2 681
Total comprehensive income/(loss)				13	(1 662)	(1 649)	(109)	(1 758)
Loss for the year				-	(1 662)	(1 662)	(109)	(1 771)
Other comprehensive income				13	-	13	-	13
Balance at 31 March 2018		1 225	4 951	56	(5 204)	1 028	(105)	923

1. *Refer note 22.2.*
2. *Refer note 22.3.*
3. *The revaluation reserve relates to fair value adjustments made to property, plant and equipment in reclassification to investment properties.*
4. *Refer note 23.*
5. *Refer note 39.*

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

AS AT 31 MARCH 2018

	Notes	Issued capital [1] Rm	Share premium [2] Rm	Revaluation reserve [3] Rm	Accumulated loss Rm	Total equity Rm
COMPANY						
Balance at 1 April 2015		1 225	4 951	43	(4 604)	1 615
Total comprehensive income (restated)				-	380	380
Profit for the year				-	272	272
Adjustment [4]	39			-	108	108
Balance at 31 March 2016 (restated) [4]		1 225	4 951	43	(4 224)	1 995
Balance at 1 April 2016 (reported previously)		1 225	4 951	43	(4 332)	1 887
Prior year adjustments		-	-	-	108	108
Balance at 1 April 2016 (restated)		1 225	4 951	43	(4 224)	1 995
Total comprehensive income				-	51	51
Profit for the year (reported previously)				-	102	102
Adjustment [4]	39			-	(51)	(51)
Balance at 31 March 2017 (restated) [4]		1 225	4 951	43	(4 173)	2 046
Balance at 1 April 2017 (reported previously)		1 225	4 951	43	(4 230)	1 989
Prior year adjustments		-	-	-	57	57
Balance at 1 April 2017 (restated)		1 225	4 951	43	(4 173)	2 046
Total comprehensive (loss)				13	(1 587)	(1 574)
Loss for the year				-	(1 587)	(1 587)
Other comprehensive income				13	-	13
Balance at 31 March 2018		1 225	4 951	56	(5 760)	472

1. *Refer note 22.2.*
2. *Refer note 22.3.*
3. *The revaluation reserve relates to fair value adjustments made to property, plant and equipment in reclassification to investment properties.*
4. *Refer note 39.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

1. CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in South Africa. The consolidated annual financial statements are presented in South African Rand (ZAR), rounded off to the nearest million (Rm) unless stated otherwise. The consolidated annual financial statements for the year ended 31 March 2018 comprise the company, its subsidiaries and associated companies (the Group).

1.1 STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

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

CHANGES IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND DISCLOSURES

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

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:

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

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

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

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

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

SEPARATE FINANCIAL STATEMENTS

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

TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

1.2 SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

The preparation of the consolidated annual financial statements in conformity with IFRS requires management to exercise its judgement, as well as make certain critical accounting estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the consolidated annual financial statements and estimates with a significant risk of material adjustment in the following financial year are discussed in note 1.3.

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

1.3 JUDGEMENTS

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

Management made significant judgements on the following contracts or programmes (for a more detail discussion refer to the directors' report on page 85:

A400M CONTRACT

The contract costs to completion on the A400M contract have been calculated based on management's best estimates regarding labour hours, material costs and escalations. In taking into account the technical and industrial uncertainties attached to the programme.

MBARC I

The contract is almost complete with the contract cost to complete based on management's view regarding subcontracting costs and the possible foreign exchange impact on finalisation of the contract. The foreign exchange impact is based on the market view from financial institutions on the exchange rate on final completion of the contract.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

CONTROL OR JOINT CONTROL

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

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

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

DEFERRED TAX ASSET

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

ESTIMATES

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

The group accounts for a group of contracts, whether with a single customer or several customers as a single construction contract when the contracts are so closely inter-related that they are, in effect, part of a single project with an overall profit margin. The group uses the percentage of completion method in accounting for recognising its contract revenue. The stage of completion is determined based on the costs incurred to date as a percentage of total estimated cost of each contract. Contract revenue comprises the initial amount of revenue agreed in the contract, contract variation orders (CVOs) and claims and incentive payments. Business entities in the group evaluate cost to completion on all contracts to determine the extent of revenue to be recognised, as well as to assess the profitability of a contract. In the instance where costs exceed expected revenue, a provision for contract losses is raised in the year that it is estimated. In determining the cost to completion, the following assumptions are used:

- Labour hours are estimated based on a review of the outstanding functionalities and the experience of the project managers in conducting similar processes, as well as their understanding of the requirements. In cases where the process requires new and unique work, anticipated hours are used;
- The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content;
- Manufacturing overheads are allocated pro rata according to IAS 11 Construction Contracts. Indirect costs are not specifically allocated to a product or an activity;
- Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases;
- Inflation and rates of exchange adjustments are made based on information supplied by reputable banks; and
- Technical obsolescence on aircraft and missile contracts where rapidly changing technology may result in a reengineering requirement on these systems.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The group's impairment assessments for property, plant and equipment are based on fair value less cost of disposal using the estimated fair value of the assets less the estimated costs of disposal. Impairment assessments were performed on assets that demonstrated possible impairment indicators or change to originally determined indicators, including available capacity against the requirements.

PRODUCT WARRANTIES

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

SITE RESTORATION

Certain business entities within the group carry out manufacturing and testing activities that contaminate the land on which they are situated. Management performed a detailed study in consultation with external specialists in the 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, namely:

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

The amount raised as a provision was based on the detail study performed, taking into account the expected timing of decontamination ranging between three and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 5.81% (2016/17:6.56%) have been discounted at an interest rate of 10.97% (2016/17:10.01%), 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 28.5 of the consolidated annual financial statements. Certain obligations have been transferred to participating parties by means of back-to-back agreements

.

Estimates used in calculating these obligations are as follows:

- Obligations for countertrade vary between 60% and 100% of export revenue;
- Calculation of possible liquidated damages or cost of exchanging credits should the group not fulfil its obligations is based on negotiations to exchange countertrade credits or the maximum penalty payable (between 4% and 100%) of the milestone obligation as mentioned above; and
- 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.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 REVENUE RECOGNITION

CONTRACT REVENUE

Contract revenue and costs relating to long-term construction contracts are recognised in profit and loss in proportion to the stage of completion of the project at year-end if the outcome of a contract can be estimated reliably. However, when the outcome of a contract cannot be reliably measured, revenue is recognised to the extent of contract costs incurred that are probable of being recovered, while contract costs are recognised in the period in which they are incurred. Expected losses on contracts are recognised immediately and in full and where it is probable that the total costs will exceed total revenue, the expected loss is recognised immediately. An expected loss is recognised as an expense.

Where contract costs incurred to date plus recognised earnings, less recognised losses exceed progress billings, the surplus is reflected as contract asset. For contracts where progress billings exceed contract costs incurred to date plus recognised profits, less recognised losses, the surplus is reflected as contract liability.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

Depending on the nature of the contract, the stage of completion is determined as follows:

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

Contract revenue comprises of the initial amount of revenue agreed in the contract; variations in contract work and incentive payments to the extent that it is probable that it will result in revenue; and it can be reliably measured. A claim is an amount that the group seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:
i) Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
ii) The amount that is probable will be accepted by the customer and can be measured reliably. An expected loss on a contract is recognised immediately in profit and loss.

SALE OF GOODS AND SERVICES

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

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.

FINANCE INCOME AND COSTS

Finance income comprises mainly interest income on funds invested. Finance income is recognised using the effective interest rate method when it is determined that such income will accrue to the group. Finance costs mainly comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets.

OTHER INCOME

Other income is any income that accrues to the group from activities that are not part of the normal operations and is recognised as it is earned.

DIVIDENDS RECEIVED

Dividends are recognised in profit and loss when the right to receive the payment is established.

GOVERNMENT GRANTS RECEIVED

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all relevant conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

1.4.2 PROVISIONS

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

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

1.4.3 TAXES

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

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

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

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

1.4.4 FINANCIAL INSTRUMENTS

The group initially recognises financial assets and liabilities on the trade date at which the group becomes a party to the contractual provisions of the instrument. Any difference between the proceeds and fair value, net of transaction costs and the redemption value is recognised in profit and loss over the period of the financial instrument.

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

FINANCIAL ASSETS

The group has the following classes:

- Financial assets at fair value through profit and loss; and
- Loans and receivables (including insurance receivables and cash and cash equivalents).

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 expenses.

LOANS RECEIVABLE

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

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at fair value.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

FINANCIAL LIABILITIES

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

BORROWINGS

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

TRADE AND OTHER PAYABLES

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

EMBEDDED DERIVATIVES

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

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

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

DE-RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

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

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

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

Financial liabilities

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

1.4.5 FOREIGN CURRENCIES

FUNCTIONAL AND PRESENTATION CURRENCY

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

RECORDING OF FOREIGN TRANSACTIONS

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

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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

1.4.6 INVESTMENT PROPERTIES

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

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

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

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

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

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

1.4.7 PROPERTY, PLANT AND EQUIPMENT

On initial recognition property plant and equipment are measured at cost.

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

DEPRECIATION

Depreciation is provided on the straight-line basis which, is estimated, will reduce the carrying amount of the assets to their residual values at the end of their useful lives. Lease improvements on leasehold properties are depreciated

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

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 5 years;
- Office furniture 3 to 20 years; and
- Computer equipment 3 to 5 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.

DE-RECOGNITION

The carrying amount of an item of property, plant and equipment shall be derecognised at the earlier of:
a) The date of disposal; or
b) The date when no future economic benefits are expected from its use or disposal.
Gains and/or losses on de-recognition of items of property, plant and equipment are recognised in profit and loss.

SPARE PARTS

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

1.4.8 LEASES

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets and liabilities acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease .The leased assets are depreciated over their estimated useful life. The capital element of future obligations under the leases is included as a liability in the consolidated statements of financial position. Leases, where the lessor retains the risks and rewards of ownership of the underlying asset, are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest rate method.

1.4.9 INTANGIBLE ASSETS

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

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

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

RESEARCH AND DEVELOPMENT COSTS

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

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

PATENTS

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

COMPUTER SOFTWARE

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

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business at fair value. Subsequently the assets and liabilities will be measured at the applicable 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 less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

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

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

1.4.10 IMPAIRMENT

FINANCIAL ASSETS

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

NON-FINANCIAL ASSETS

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

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

REVERSALS OF IMPAIRMENT

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

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

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

1.4.11 INVENTORIES

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

WORK-IN-PROGRESS AND FINISHED PRODUCTS

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

CONSUMABLE INVENTORIES

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

1.4.12 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. These funds are used to finance the execution of contracts, which include advance payments to suppliers, finance long-lead inventory items and work-in-progress.

Guarantees are provided to customers for advance payments received. Advance payments received are recognised as a current liability for an amount that is estimated to be settled within one year from reporting date and as a non-current liability for the amount to be settled after one year from reporting date. Advance payments received in foreign currency are recognised at the ruling spot rate on the date of receipt. Guarantees provided are disclosed as contingent liabilities.

1.4.13 EMPLOYEE BENEFITS

PENSION OBLIGATIONS

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

OTHER POST-RETIREMENT OBLIGATIONS

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

SHORT TERM EMPLOYEE BENEFITS

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

1.4.14 COUNTERTRADE OBLIGATIONS

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

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

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

1.4.15 SEGMENT REPORTING

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

1.4.16 HEDGE ACCOUNTING

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

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

1.4.17 NON-CURRENT ASSETS HELD FOR SALE

Assets are classified as non-current assets held for sale if the carrying amount would be recovered mainly through a sale transaction and not through continued use. This condition is regarded as met when a sale is highly probable; the asset or disposal group is available for immediate sale in its present condition and when management is committed to the sale. A business entity to be partially disposed, which remains to be consolidated, is not classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets is done in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets or disposal groups are recognised at the lower of carrying amount and fair value less costs to its subsequent disposal. Impairment losses on initial classification as held for sale are recognised in profit and loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are also recognised in profit and loss.

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

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

NUMBER	TITLE	EFFECTIVE DATE
IFRS 9	***Financial instruments*** – Guidance on classification and measurement, impairment, hedge accounting and de-recognition. This standard replaces IAS 39, Financial instruments: Recognition and measurement.	1 Jan 2018
IFRS 15	Revenue from contracts from customers – Provides a single, principle based five-step model to be applied to all contracts with customers.	1 Jan 2018
IFRS 16	***Leases*** – New standard that requires a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.	1 Jan 2019
IFRS 3	***Business combinations*** – Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interest in that business.	1 Jan 2019
IFRIC 22 Foreign currency translations	***Foreign currency transactions and Advance considerations*** - This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.	1 Jan 2018
IAS 40 Investment Property	***Transfers of Investment Property:*** Clarification of the requirements on transfers to, or from, investment property.	1 Jan 2018

Amendments with possible significant impact

IFRS 9, financial instruments

The completed standard comprises guidance on classification and measurement, impairment hedge accounting and derecognition. Some changes were made to the fair value option for financial liabilities to address the issue of own credit risk, the model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets.

The group is in the process of implementing the requirements of IFRS9. The group does not believe, based on the assessment of the classification and measurement of financial assets, that IFRS 9 will have a material impact on its financial trading assets, derivatives held for risk management, loans receivable, trade and other receivables, and cash and cash equivalents.
The group is assessing the potential impact of the IFRS 9 hedge accounting requirements on its current hedging strategies under AS 39 to be able to identify:

- Differences between current hedge accounting documentation and those required under IFRS 9;
- Differences between current hedging strategies and the related current accounting treatment and what is allowed under IFRS 9
- Differences in the approach to calculating hedge effectiveness under IFRS 9 as applicable to the group's exiting hedge strategies
- Whether any additional risk management strategies will qualify for hedge accounting

Due to the prior period errors on revenue, management could not quantify the impact this statement will have at the time of publishing the financial statements.

IFRS 15, Revenue from contracts with customers

IFRS 15 provides a single, principle-based five-step model to be applied to all contracts with customers. The five steps in the model comprise of identifying the contract, identifying performance obligations in the contract, determining the transaction price, allocating transaction price to performance obligations in the contract and recognising revenue when (or as) the entity satisfies a performance obligation. Denel will apply the requirements of this new standard in the 2019 financial year.

The group is in the process of implementing the requirements of IFRS 15.The group has reviewed individual contract in order to determine the performance obligations as per each contract. The revenue for 2018 financial statements will be restated in 2019 financial year. Due to the prior period errors on revenue, management could not quantify the impact this statement will have at the time of publishing the financial statements.

IFRS 16, Leases

IFRS 16 provides a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7, Statement of cash flows. Denel has implemented an initial assessment of the potential impact on its consolidated financial statements but has not completed a detailed assessment. So far, the most impact identified is that Denel will recognise new assets and liabilities for its operating leases of the Kempton Park and Houwteq premises. In addition, the nature of the expenses will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
2 REVENUE						
Contract revenue [1 and 2]	4 902	7 894	8 276	3 647	6 155	6 717
Sale of goods	4 513	7 621	8 055	3 309	5 973	6 550
Previously reported		7 621	7 861		5 973	6 329
Claims for indemnity loss (refer note 39.5)		-	(27)		-	-
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	221		-	221
Services rendered	389	273	221	338	142	129
Revenue from recoveries	(37)	41	38	(37)	41	38
Income from investment properties [3]	133	122	108	144	133	118
	4 998	8 057	8 422	3 754	6 289	6 835

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

Receivables, which are included in Trade and other receivables (refer note 17)	1 384	2 221	2 647	1 167	1 829	2195
Contract assets (refer note 39.4) 4	1 720	1 475	1 599	1 720	1 475	1599
Contract liabilities (refer note 39.4) 4	298	328	412	291	328	412

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on made-to-order paper products. There was no impact on contract assets as a result of an acquisition of Turbomeca Africa (Pty) Ltd (refer note 8.1). The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

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

1. *Contract revenue also includes the sale of goods and services.*
2. *Amounts reported on as per the published 2015/16 Integrated Report restated.*
3. *No lease incentives were granted during 2017/18 (2016/17: Rnil; 2015/16: Rnil).*
4. *Amounts reported on as per the published 2016/17 and 2015/16 Integrated Reports restated.*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
3 COST OF SALES AND OTHER OPERATING EXPENSES						
Cost of sales [1]	5 119	6 236	6 679	3 903	4 838	5 478
Previously reported		6 236	6 556		4 838	5 355
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	123		-	123
Other operating expenses [2]	1 726	1 555	1 455	1 548	1 326	1 189
Previously reported		1 483	1 455		1 254	1 189
Reversal of impairment loss (refer note 39.1)		72	-		72	-
	6 845	7 791	8 134	5 451	6 164	6 667
Cost of sales and other operating expenses are arrived at after taking the following items into account:						
Amortisation of intangible assets (refer note 11)	9	11	16	3	7	12
Software	9	11	16	3	7	12
Auditors' remuneration	12	13	14	10	10	11
Current year	12	13	14	10	10	11
Costs of inventories recognised as an expense (refer note 16)	2 462	4 032	3 025	1 388	3 097	1 868
Depreciation (refer note 9)	127	142	131	93	103	100
Buildings	23	29	20	19	25	17
Computer equipment	16	20	20	13	17	18
Office furniture	3	3	3	2	2	2
Plant and machinery	18	80	77	52	49	52
Vehicles	7	10	11	7	10	11
Directors remuneration [3]	33	19	12	33	19	12
Executive directors	31	16	8	31	16	8
Non-executive directors	2	3	4	2	3	4

1. *Amounts reported on as per the published 2015/16 Integrated Report restated.*
2. *Amounts reported on as per the published 2016/17 Integrated Report restated.*
3. *Directors' remuneration is excluded from Employees: Salaries and relevant costs. Detailed remuneration is fully disclosed in the remuneration report, pages 78 to 80. Executive directors' remuneration is included from date of appointment as director.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
3 COST OF SALES AND OTHER OPERATING EXPENSES (CONTINUED)						
Employees: Salaries and relevant costs [1]	2 196	2 275	2 278	1 748	1 691	1 704
Medical fund contributions	114	111	108	92	85	85
Pension costs: Defined contribution plan	180	177	154	157	146	120
Services costs	2 053	2 080	1 912	1 606	1 540	1 447
Staff and related provisions	(164)	(93)	49	(118)	(80)	7
Termination benefits	13	-	38	11	-	28
Other long-term benefit contributions	-	-	17	-	-	17
Impairment raised/(reversed)	277	36	119	352	(5)	176
Intangible assets (refer note 11)	237	-	163	-	-	159
Inventories	25	38	(57)	29	(8)	2
Intra-group loan				314	-	-
Trade and other receivables (refer note 17)	15	(2)	13	9	3	15
Loss on disposal of assets	-	-	1	-	-	-
Property, plant and equipment (refer note 9)	-	-	1	-	-	-
Net losses on financial instruments (refer note 5)	(273)	(232)	-	(277)	(361)	-
Operating expenses for investment properties	51	280	201	51	280	200
Operating lease payments [2]	83	86	96	73	71	81
Buildings	73	70	87	64	64	74
Computer equipment	2	4	5	2	3	4
Office furniture	7	4	3	7	4	3
Plant and machinery	1	8	1	-	-	-
Research and development costs [3]	769	609	544	665	599	523

1. *Directors' remuneration is excluded from Employees: Salaries and relevant costs. Detailed remuneration is fully disclosed in the remuneration report, pages 78 to 80. Executive directors' remuneration is included from date of appointment as director.*
2. *No lease incentives were received during 2016/17 (2015/16: Rnil).*
3. *The R&D costs are mainly customer funded. No amount (2016/17: Rnil, 2015/16: R6m) was charged against provisions and R17m (2016/17: Rnil, 2015/16: Rnil) has been capitalised during the year under review.*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
4 OTHER INCOME						
Administration and management fees	4	4	4	38	29	23
Dividends received	62	-	-	208	-	56
Fair value adjustment on investment properties (refer note 10)	53	48	162	53	48	162
Government grants received	8	14	18	8	13	18
Net gains on financial instruments (refer note 5)	-	-	50	-	-	107
Profit on disposal of property, plant and equipment	-	-	1	-	-	-
Royalty income	7	12	-	7	12	-
Other [1 and 2]	26	57	53	84	70	62
Refer footnote [2]	160	135	288	398	172	428
5 NET GAINS ON FINANCIAL INSTRUMENTS						
Settled transactions	(128)	(186)	(60)	(85)	(214)	(82)
Gains	149	135	156	136	107	134
Losses	(277)	(321)	(216)	(221)	(321)	(216)
Fair value adjustments	(70)	129	(4)	(117)	28	75
Gains	282	567	267	124	328	186
Losses	(352)	(438)	(271)	(241)	(300)	(111)
Firm commitments remeasurement	(75)	(175)	114	(75)	(175)	114
Gains	14	72	177	14	72	177
Losses	(89)	(247)	(63)	(89)	(247)	(63)
Refer note 3 and 4	(273)	(232)	50	(277)	(361)	107

1. *Other is mainly made up of scrap sales, insurance claims, low claim bonuses, discount received, as well as skills development levies rebates received.*
2. *Due to a formula error, Other income in total was overstated by R1m, R136m i.s.o. R135m w.r.t. the group and R173m i.s.o. R172m w.r.t. the company' in 2016/17 Integrated Report, with "Other" been also corrected as the balancing figure.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
6 NET FINANCE COSTS						
The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):						
6.1 FINANCE COSTS						
Non-current interest-bearing loans and borrowings	-	72	87	-	72	87
Current interest-bearing loans and borrowings	331	256	174	305	239	172
Intragroup finance costs				44	24	11
Finance costs on financial liabilities	331	328	261	349	335	270
Unwinding of discount on provisions (refer note 26.3)	28	24	19	28	24	19
	359	352	280	377	359	289
6.2 FINANCE INCOME						
Gross interest received	63	100	87	52	91	72
Previously reported		79	77		70	62
Providing for future losses (refer note 39.7)		21	10		21	10
Unwinding of discount on provisions (refer note 26.3)	4	1	-	4	1	-
Intragroup finance income				36	21	1
	67	101	87	92	113	73
Net finance costs	292	251	193	285	246	216
6.3 RECONCILIATION						
Interest paid						
Finance costs (refer note 6.1)	359	352	280	377	359	289
Add back:						
Unwinding of discount on provisions (refer note 26.3)	(28)	(24)	(19)	(28)	(24)	(19)
Movement in interest accrued for the year	(20)	(11)	(31)	(20)	(11)	(31)
Discount on borrowings	40	21	1	40	21	1
As per the consolidated and separate statements of cash flows	351	338	231	364	365	240
Interest received						
Finance income (refer note 6.2)	67	101	97	92	113	73
Add back:						
Unwinding of discount on provisions (refer note 26.3)	(4)	(1)	-	(4)	(1)	-
Movement in interest receivable for the year	2	-	-	1	-	2
As per the consolidated and separate statements of cash flows	65	100	97	89	112	75

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
7 INCOME TAX EXPENSE						
SA normal tax [1]			87	-	72	87
Current tax	(1)	11	61	-	-	-
Foreign tax	3	-	-	3	-	-
Deferred tax (refer note 15)	16	12	(22)	-	-	-
	18	23	39	3	-	-
	%	%	%	%	%	%
Reconciliation of tax rate						
Effective tax rate	1.2	6.6	9.1	0.3	-	-
Adjustment in tax rate due to:	26.8	21.4	18.9	27.7	28.0	28.0
Exempt income	-	-	3.6	-	-	5.7
Deferred tax asset not recognised	24.8	10.0	13.0	15.6	24.0	26.0
Share of associated companies	(4.2)	12.1	8.5			
Other	6.2	(0.7)	(6.2)	12.1	4.0	(3.7)
SA normal tax rate	28.0	28.0	28.0	28.0	28.0	28.0
	Rm	Rm	Rm	Rm	Rm	Rm
The calculated tax losses available for offset against future taxable income are as follows:						
Calculated income tax losses	4 709	3 671	3 147	2 540	2 270	2 263
Capital gains tax losses	361	351	348	361	351	348
Total calculated tax losses	5 070	4 022	3 495	2 901	2 621	2 611
Calculated tax losses utilised	-	-	-	-	-	-
Net available calculated tax losses	5 070	4 022	3 495	2 901	2 621	2 611

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP 2017/18 Turbomeca Africa (Pty) Ltd Rm	GROUP 2015/16 Denel Vehicle Systems (Pty) Ltd Rm
8 ACQUISITION AND ESTABLISHING OF SUBSIDIARIES		
ASSETS		
Non-current assets	**25**	**338**
Property, plant and equipment (refer note 9) [1 and 2]	25	274
Intangible assets (refer note 11) [3]	-	51
Deferred tax assets (refer note 15)	-	13
Current assets	**110**	**512**
Inventories [4]	11	119
Trade and other receivables	99	146
Cash and short-term deposits	-	231
Income tax receivables	-	16
Total assets	**135**	**850**
LIABILITIES		
Non-current liabilities	**-**	**111**
Provisions	-	111
Current liabilities	**47**	**153**
Trade and other payables	42	119
Other financial liabilities	-	4
Provisions	5	30
Total liabilities	**47**	**264**
Total identifiable net assets at fair value	88	586
Goodwill arising on acquisition [5 and 6]	19	242
Purchase consideration	**107**	**828**

There were no acquisitions of subsidiaries during the 2016/17 financial year.

8 ACQUISITION AND ESTABLISHING OF SUBSIDIARIES (CONTINUED)

8.1 ACQUISITION OF TURBOMECA AFRICA (PTY) LTD - 2017/18

On 1 September 2017, Denel acquired the remaining 51% shareholding in Turbomeca Africa (Pty) Ltd for (R47m) to bring its interest in the company to 100%. The slump in turbo engine requirements for Saffran Helicopters has necessitated Saffran to close down and exit on a number of offshore branches. The main objection for the acquisition by Denel was to ensure security of supply for maintenance work on helicopter engines used by the National Defense force on commercially acceptable terms.

8.2 ACQUISITION OF DENEL VEHICLE SYSTEMS (PTY) LTD - 2015/16

On 29 April 2015 Denel acquired 100% of the issued ordinary shares of BAE Systems Land Systems South Africa (Pty) Ltd, an unlisted company, whose core business is the provision of protected vehicle solutions. The opportunity to acquire this business was ideal for Denel to complete its landwards strategy with a world-class design-manufacturing-log support capability, a vast range of combat-proven vehicles and proven client credibility, including a strong NATO customer base. The acquisition purchase consideration was R828m on the understanding that Denel, through this wholly owned subsidiary, would gain access to relevant opportunities, broaden its landward capability for a new product range and thereby maximise synergies. Since the acquisition of BAE Systems Land Systems South Africa (Pty) Ltd its name was changed to Denel Vehicle Systems (Pty) Ltd.

8.3 ESTABLISHING OF DENEL ASIA LLC - 2015/16

The company was established in Hong Kong on 29 January 2016. Denel SOC Ltd has 51% shareholding in Denel Asia LLC. 510 ordinary shares of the 1 000 ordinary shares of Denel Asia LLC were issued to Denel SOC Ltd for HK$510. The company has not been operating since its incorporation. The deregistration of Denel Asia LLC is in process.

510 Ordinary shares at HK$1 per share	-	HK$510

1. *Turbomeca Africa (Pty) Ltd 's property, plant and equipment were valued at R24m (carrying amount at acquisition R24m). Refer note 9.*
2. *Denel Vehicle Systems (Pty) Ltd's property, plant and equipment were valued at R274m (carrying amount at acquisition R144m). Refer note 9.*
3. *The intangible assets include internal generated intellectual properties valued at R51m (carrying amount at acquisition R21m).*
4. *Inventory at fair value of R119m after taking into account impairment of R180m, refer note 15.*
5. *The goodwill of R19m arising from the acquisition of Turbomeca Africa (Pty) Ltd was written off in the 2017/18 financial year. Refer note 11.*
6. *The goodwill of R242m comprises the value of the expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes. From date of acquisition, for the financial year ended 2015/16 Denel Vehicle Systems (Pty) Ltd has contributed R664m of revenue and R102m to net profit before tax of the group. Goodwill of R207m arising from the acquisition of Denel Vehicle Systems (Pty) Ltd was written off in the 2017/18 financial year. Refer note 11.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Land	Buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Assets under construction 1	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
9 PROPERTY, PLANT AND EQUIPMENT								
GROUP								
2017/18								
Carrying value at 1 April	46	453	44	12	524	26	29	1 134
Additions	-	-	10	-	15	-	17	42
Business acquired (refer note 8.1)	-	-	-	-	25	-	-	25
Depreciation for the year (refer note 3)	-	(23)	(16)	(3)	(78)	(7)	-	(127)
Disposals	-	-	-	-	-	-	-	-
Reclassification [1]	-	-	-	1	24	-	(25)	-
Transfer to intangible assets (refer note 11)	-	-	-	-	-	-	(1)	(1)
Carrying value at 31 March	**46**	**430**	**38**	**10**	**510**	**19**	**20**	**1 073**
Cost	46	706	282	52	1 912	130	20	3 148
Accumulated depreciation and impairment	-	(276)	(244)	(42)	(1 402)	(111)	-	(2 075)
Carrying value at 31 March	**46**	**430**	**38**	**10**	**510**	**19**	**20**	**1 073**
2016/17								
Carrying value at 1 April	46	474	57	14	564	35	20	1 210
Additions	-	8	7	1	34	1	12	63
Depreciation for the year (refer note 3)	-	(29)	(20)	(3)	(80)	(10)	-	(142)
Disposals	-	-	-	-	(2)	-	-	(2)
Reclassification [1]	-	-	-	-	8	-	(8)	-
Transfer from intangible assets (refer note 11)	-	-	-	-	-	-	5	5
Carrying value at 31 March	**46**	**453**	**44**	**12**	**524**	**26**	**29**	**1 134**
Cost	46	706	279	51	1 849	130	29	3 090
Accumulated depreciation and impairment	-	(253)	(235)	(39)	(1 325)	(104)	-	(1 956)
Carrying value at 31 March	**46**	**453**	**44**	**12**	**524**	**26**	**29**	**1 134**

1. Refer footnote 1 on page 129

	Land	Buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Assets under construction 1	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)								
GROUP								
2015/16								
Carrying value at 1 April	46	243	67	12	488	33	26	915
Additions	-	33	13	3	69	12	5	135
Business acquired (refer note 8.2)	-	77	3	2	61	1	-	144
Capitalised leases (refer note 24)	-	-	-	-	23	-	-	23
Depreciation for the year (refer note 3)	-	(20)	(20)	(3)	(77)	(11)	-	(131)
Disposals	-	-	(1)	-	-	-	-	(1)
Fair value at first consolidation	-	130	-	-	-	-	-	130
Reclassification 1	-	11	-	-	-	-	(11)	-
Transfer to intangible assets (refer note 11)	-	-	(5)	-	-	-	-	(5)
Carrying value at 31 March	**46**	**474**	**57**	**14**	**564**	**35**	**20**	**1 210**
Cost	46	698	274	51	1 833	130	20	3 052
Accumulated depreciation and impairment	-	(224)	(217)	(37)	(1 269)	(95)	-	(1 842)
Carrying value at 31 March	**46**	**474**	**57**	**14**	**564**	**35**	**20**	**1 210**

Registers of property, plant and equipment are open for inspection at the entities of the group. Assets under construction were financed by funds available within the group.

At 31 March 2018, the group and company had not assessed the useful life of all the assets that are in use with a zero carrying value.

1. *During the year under review Assets under construction of R25m for the group and Rnil for company (2016/17: R8m for the group and R6m for the company to the category Plant and machinery, 2015/16: R11m for both group and company to the category, Land and buildings) were completed and transferred to the categories, Computer equipment and Plant and machinery. For 2015/16, the amount mainly consists of the upgrade of buildings taking place at Overberg Test Range.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Land	Buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Assets under construction [1]	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)								
COMPANY								
2017/18								
Carrying value at 1 April	46	235	36	9	261	25	20	632
Additions	-	2	11	-	26	-	2	41
Business acquired (refer note)	-	-	-	-	25	-	-	25
Depreciation for the year (refer note 3)	-	(19)	(13)	(2)	(52)	(7)	-	(93)
Reclassification [1]	-	-	-	-	6	-	(6)	-
Transfer from intangible assets (refer note 10)	-	-	-	-	-	-	-	-
Carrying value at 31 March	**46**	**218**	**34**	**7**	**266**	**18**	**16**	**605**
Cost	46	459	179	27	1 334	115	16	2 176
Accumulated depreciation and impairment	-	(241)	(145)	(20)	(1 068)	(97)	-	(1 571)
Carrying value at 31 March	**46**	**218**	**34**	**7**	**266**	**18**	**16**	**605**
2016/17								
Carrying value at 1 April	46	255	49	10	275	34	16	685
Additions	-	5	4	1	29	1	5	45
Depreciation for the year (refer note 3)	-	(25)	(17)	(2)	(49)	(10)	-	(103)
Reclassification [1]	-	-	-	-	6	-	(6)	-
Transfer from intangible assets (refer note 11)	-	-	-	-	-	-	5	5
Carrying value at 31 March	**46**	**235**	**36**	**9**	**261**	**25**	**20**	**632**
Cost	46	456	181	29	1 250	122	20	2 104
Accumulated depreciation and impairment	-	(221)	(145)	(20)	(989)	(97)	-	(1 472)
Carrying value at 31 March	**46**	**235**	**36**	**9**	**261**	**25**	**20**	**632**
2015/16								
Carrying value at 1 April	46	232	64	10	278	33	20	683
Additions	-	29	8	2	49	12	7	107
Depreciation for the year (refer note 3)	-	(17)	(18)	(2)	(52)	(11)	-	(100)
Reclassification [1]	-	11	-	-	-	-	(11)	-
Transfer to intangible assets (refer note 11)	-	-	(5)	-	-	-	-	(5)
Carrying value at 31 March	**46**	**255**	**49**	**10**	**275**	**34**	**16**	**685**
Cost	46	451	180	29	1 237	121	16	2 080
Accumulated depreciation and impairment	-	(196)	(131)	(19)	(962)	(87)	-	(1 395)
Carrying value at 31 March	**46**	**255**	**49**	**10**	**275**	**34**	**16**	**685**

1. *Refer footnote 1 on page xxx.*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
10 INVESTMENT PROPERTIES						
Fair value at 1 April	728	680	590	719	671	581
Fair value adjustment (refer note 4)	53	48	162	53	48	162
Fair value adjustment (refer note 39.8)	13	-	-	13	-	-
Transfer from assets held for sale (refer note 21)	-	156	(72)	(1)	156	(72)
Disposal of investment property	-	(156)	-	-	(156)	-
Fair value at 31 March	794	728	680	784	719	671

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

For further details on investment properties, refer to accounting policies, note 1.4.6 on page 113.

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void period, occupancy rate, lease incentive costs such as rent-free period and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs. secondary), tenant credit quality and lease terms.	▪ Expected market rental growth (7.2% -10%, weighted average 8.6%); ▪ 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%, weighted average 13%).	The estimated fair value would increase/decrease if: ▪ Expected market rental growth were higher/lower; ▪ The occupancy rate were highter/lower; ▪ Rent-free periods were shorter/longer; or ▪ The risk-adjusted discount rate were low.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
11 INTANGIBLE ASSETS						
Development costs	46	31	35	16	-	5
At cost	234	217	221	199	111	188
Accumulated amortisation and impairment	(188)	(186)	(186)	(183)	(111)	(183)
Previously reported		(114)	(186)		(39)	(183)
Reversal of impairment loss (refer note 39.1)		(72)	-		(72)	-
Goodwill	41	259	259	-	-	-
At cost	348	331	331	-	-	-
Accumulated impairment	(307)	(72)	(72)	-	-	-
Denel Aerostructure SOC Ltd	(72)	(72)	(72)	-	-	-
LMT Holdings SOC Ltd (RF) [1]	(9)	-	-	-	-	-
Denel Vehicle Systems (Pty) Ltd [2]	(207)	-	-	-	-	-
Turbomeca Africa (Pty) Ltd [3]	(19)	-	-	-	-	-
Software	16	23	33	14	17	23
At cost	198	198	198	158	159	159
Accumulated amortisation and impairment	(182)	(175)	(165)	(144)	(142)	(136)
Other [4]	8	8	8	8	8	8
At cost	34	34	34	8	8	8
Accumulated amortisation and impairment	(26)	(26)	(26)	-	-	-
Total carrying value at 31 March	111	321	335	38	25	36

1. *On 11 May 2012, Denel acquired 51% of the issued ordinary shares of LMT Holdings (Pty) Ltd, an unlisted company, who's core business is in the provision of protected vehicle solutions. LMT Holdings (Pty) Ltd have three subsidiaries i.e. LMT Products (Pty) Ltd, LMT Engineering (Pty) Ltd and LMT Properties (Pty) Ltd. The company has acquired LMT Holdings (Pty) Ltd to broaden its landward capability for a new product range. The acquisition was for a purchase consideration of R100 on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies. The goodwill of Rnil (2016/17: R9m, 2015/16: R9m) comprises the value of the expected synergies arising from the acquisition. A decision was taken by management to write off the goodwill arising from the LMT Holdings(Pty) Ltd for the year under review. Since acquisition the name was changed to LMT Holdings SOC Ltd (RF).*

2. *At acquisition of Denel Vehicle Systems (Pty) Ltd , Denel recognised goodwill of R242m. In 2017/18, the recoverable amount was based on its value in use, determined by discounting the future cash flows to be generated from its continued use. The carrying amount was determined to be higher than its recoverable amount of R611m and an impairment loss of R207m was recognised. The impairment loss was fully allocated to goodwill and included in 'Operating expenses'. The assumptions used in the estimation of value in use were as follows:*

   - *Discount rate 16.99%*
   - *Terminal value growth rate 11.49%*

   The discount rate used was based on South African Government bond, the R186 South African Government bond. The cashflows were based on the most recent Corporate Plan of DVS. Ten years of cash flows were included in the discounted cashflows model. Management reviewed the long-term nature of the contracts in determining this period and the period in which those contracts exceeded the five year horizon. The growth rate applied was 5.5%."

3. *Goodwill at acquisition of Turbomeca (Pty)Ltd was impaired as the company is dormant (refer note 8).*

4. *Intellectual property related to the development and industrialisation of the 20 X 42mm Neopup Personal Area Weapon.*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
11 INTANGIBLE ASSETS (CONTINUED)						
RECONCILIATION						
Development costs						
Carrying value at 1 April (reported previously)	103	35	164	72	5	158
Adjustment (refer note 39.1)	(72)	-	-	(72)	-	-
Carrying value at 1 April (restated)	31	35	164	-	5	158
Capitalised during the year	17	1	5	16	-	6
Fair value at first consolidation	-	-	29	-	-	-
Impairment for the year (refer note 3) [1]	(2)	72	(163)	-	72	(159)
Reversal of impairment loss (refer note 39.1)	-	(72)	-	-	(72)	-
Transfer to property, plant and equipment (refer note 9)	-	(5)	-	-	(5)	-
Carrying value at 31 March	**46**	**31**	**35**	**16**	**-**	**5**
Goodwill						
Carrying value at 1 April	259	259	9	-	-	-
Acquistion external	-	-	242	-	-	-
Business acquired	17	-	8	-	-	-
Impairment for the year (refer note 3) [1]	(235)	-	-	-	-	-
Carrying value at 31 March	**41**	**259**	**259**	**-**	**-**	**-**
Software						
Carrying value at 1 April	23	33	26	17	23	26
Acquistion external	-			-		
Amortisation for the year (refer note 3)	(9)	(11)	(16)	(3)	(7)	(12)
Business acquired	-	-	13	-	-	-
Capitalised during the year	1	1	5	-	1	4
Transfer from property, plant and equipment (refer note 9)	1	-	5	-	-	5
Carrying value at 31 March	**16**	**23**	**33**	**14**	**17**	**23**
Other						
Carrying value at 1 April	8	8	8	8	8	8
Capitalised during the year	-	-	-	-	-	-
Carrying value at 31 March	**8**	**8**	**8**	**8**	**8**	**8**
Total carrying value at 31 March	**111**	**321**	**335**	**38**	**25**	**36**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	COMPANY 2017/18 Rm	2016/17 Rm	2015/16 Rm
12 INVESTMENTS IN SUBSIDIARIES			
Unlisted shares	2 635	2 541	2 541
Accumulated impairment	(1 055)	(1 055)	(1 055)
Carrying value at 31 March	**1 580**	**1 486**	**1 486**
The accumulated impairment loss on investments in subsidiaries is as follows:			
Unlisted shares			
Impairment for the year (refer note 3) [1]			
Balance at 1 April	1 055	1 055	1 055
Impairment for the year	-	-	-
	1 055	1 055	1 055

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

BAE Land Systems South Africa (Pty) Ltd was acquired on 29 April 2015, subsequent name change to Denel Vehicle Systems (Pty) Ltd. Denel Asia LLC was established in Hong Kong on 29 January 2016.

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

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

13 INVESTMENTS IN ASSOCIATED COMPANIES

13.1 ESTABLISHMENT OF ASSOCIATED COMPANIES

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

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

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

- Rheinmetall Waffe Munition GmbH holds 51% of the shares in Rheinmetall Denel Munition (Pty) Ltd, and has the right in terms of the shareholder's agreement to appoint three of the five board members;
- Rheinmetall Waffe Munition GmbH manage the day to day activities of the company in terms of the shareholder's agreement; and
- Rheinmetall Waffe Munition GmbH has the right to appoint the CEO and CFO of their choice of the company in terms of the shareholder's agreement.

These matters were initially considered by management in 2008 when the company was established. At that time and subsequently Rheinmetall Denel Munition (Pty) Ltd has been accounted for using the equity method. On adoption of IFRS 10, "Consolidated Financial Statements", these same factors enabled management to conclude, without making any significant judgements, that Denel does not have power over Rheinmetall Denel Munition (Pty) Ltd but can exercise significant influence.

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

13 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

13.1 ESTABLISHMENT OF ASSOCIATED COMPANIES (CONTINUED)

		2017/18				2016/17 and 2015/16			
		Denel SOC Ltd		Equity partners		Denel SOC Ltd		Equity partners	
Associated company	Equity partner	Shareholding %	Number of board members	Shareholding %	Number of board members	Shareholding %	Number of board members	Shareholding %	Number of board members
Hensoldt Optronics (Pty) Ltd	Hensoldt Sensors GmbH [1]	30	1	70	5	30	1	70	5
Rheinmetall Denel Munition (Pty) Ltd	Rheinmetall Waffe Munition GmbH [1]	49	2	51	3	49	2	51	3
Pioneer Land Systems LLC	International Golden Group PJSC [2]	49	2	51	3	49	2	51	3
Tawazun Dynamics LLC	Tawazun Holding [2]	49	2	51	3	49	2	51	3
Turbomeca Africa (Pty) Ltd [3]	Turbomeca SAS and Safran SA [4]					49	3	51	5

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.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
13.2 NET INVESTMENT IN ASSOCIATED COMPANIES						
Cost of investments in associated companies						
Unlisted shares	451	500	500	451	500	500
Net share of results in associated companies	662	495	340			
Share of current year profit before tax	281	203	161			
Share of current year tax	(55)	(48)	(29)			
Share of current year profit after tax (refer note 29)	226	155	132			
Dividends paid	(59)	-	(25)			
Accumulated profit at 1 April	495	340	233			
Net investments in associated companies	1 113	995	840	451	500	500
The net investments in associated companies are made up as follows:						
Hensoldt Optronics (Pty) Ltd [1]	149	128	103	56	56	56
Rheinmetall Denel Munition (Pty) Ltd	879	735	608	372	372	372
Pioneer Land Systems LLC	-	-	-			
Tawazun Dynamics LLC [2]	85	45	-	23	23	23
Turbomeca Africa (Pty) Ltd		87	129		49	49
Net investments in associated companies	1 113	995	840	451	500	500

The total comprehensive loss attributable to one of the associated companies for the year-end 31 December 2016 was R100m. As per the company's accounting policy and in accordance with ***IAS 28, Investments in associates and joint ventures***, paragraph 38, the associates share of losses is only recognised up to the value of the investment in the associate which was R23m for 2015/16. The remaining attributable comprehensive loss of R77m for 2015/16 has been offsetted against 2016/17's generated profits of the associated company before the investment was recognised in the company's accounting records. The associate company made a profit in 2016/17.

None of the investments in associated companies were impaired during the year under review (2016/17: Rnil).

1. *Company is incorporated in Germany. Hensoldt Sensors GmbH bought the 70% shareholding in Airbus DS Optronics (Pty) Ltd from Airbus DS Optronics GmbH on 28 February 2108.*
2. *Company is incorporated in the UAE.*
3. *Both companies are incorporated in France.*
4. *Turbomeca Africa (Pty) Ltd is a world leader in design, manufacturing and sale of gas turbines for small- and medium-powered helicopters. Turbomeca Africa (Pty) Ltd became a wholy-owned subsidiary when Denel SOC Ltd bought the remaining 51% on 1 September 2017. Refer note 8.1.*
5. *Refer to the consolidated and separate income statements and statements of comprehensive income, page 102.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18 Rm	2016/17 Rm	2015/16 Rm

13 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

13.3 EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

Rheinmetall Denel Munition (Pty) Ltd has elected to designate hedges as cash flow hedges for hedge accounting purposes whereas Denel's accounting policy is to designate hedges as fair value hedges. For disclosure purposes, Rheinmetall Denel Munition (Pty) Ltd's annual financial statements were restated to reflect Denel's acounting policy in this regard. Rheinmetall Denel Munition (Pty) Ltd is considered to be a material associated company as a result of the quantitative nature of its results and is disclosed separately.

The following represents the summarised restated financial information of Rheinmetall Denel Munition (Pty) Ltd:

	2017/18 Rm	2016/17 Rm	2015/16 Rm
Total assets	2 752	2 466	2 563
Non-current assets	629	637	314
Current assets	2 123	1 829	2 249
Total liabilities	381	1 214	1 946
Non-current liabilities	194	169	313
Current liabilities	187	1 045	1 633
Net assets	2 371	1 252	617
Group's share of associated company's net assets	1 162	613	302
Revenue	2 809	2 376	2 136
Group's share of revenue	1 376	1 164	1 047
Profit before tax	448	344	206
Group's share of profit before tax	220	169	101
Profit after tax	345	260	156
Group's share of profit after tax	169	127	76

13 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

13.3 EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

The other associated companies' figures are not material, thus for disclosure purposes, figures are aggregated. The following represents the summarised financial information of the associated companies other than Rheinmetall Denel Munition (Pty) Ltd:

	2017/18 Rm	2016/17 Rm	2015/16 Rm
Total assets	3 201	3 389	3 298
Non-current assets	382	339	533
Current assets	2 819	3 050	2 765
Total liabilities	2 574	2 728	2 887
Non-current liabilities	462	812	1 474
Current liabilities	2 112	1 916	1 413
Net assets	627	661	411
Group's share of associated company's net assets	-	245	138
Revenue	1 802	3 355	1 185
Group's share of revenue	780	1 510	473
Profit before tax	156	110	158
Group's share of profit before tax	60	34	60
Profit after tax	156	43	147
Group's share of profit after tax	226	28	56

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
14 LOANS AND RECEIVABLES						
Intragroup loans receivable [1]						
Gross amount receivable	-	-	-	650	601	386
Total non-current non-interest bearing loans and receivables						
Denel Aerostructures SOC Ltd (refer note 14.1)	-	-	-	336	336	336
Total current interest bearing loans and receivables						
LMT Holdings SOC Ltd (RF) (refer note 14.2)	-	-	-	314	265	50
Accumulated impairment	-	-	-	650	336	336
Total non-current non-interest bearing loans and receivables						
Denel Aerostructures SOC Ltd	-	-	-	336	336	336
Total current interest bearing loans and receivables						
LMT Holdings SOC Ltd (RF)	-	-	-	314	-	-
	-	-	-	-	265	50
Accumulated impairment						
Balance as at 1 April	-	-	-	336	336	336
Impairment for the year (refer note 14.3)	-	-	-	314	-	-
	-	-	-	650	336	336

Intragroup loans are in actual fact financial instruments that are managed by the group's treasury function. The audit committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. (Refer note 33.1). The amount comprises:

- Cash managed by the group's treasury function.
- Cash comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash equivalents that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.
- Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

14.1 DENEL AEROSTRUCTURES SOC LTD

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

14.2 LMT HOLDINGS SOC LTD (RF)

All amounts payable under this agreement will be payable on 1 November 2018 unless otherwise agreed between the parties. LMT Holdings Soc Ltd (RF) will pay interest at prime less 0.5% per annum. In the event that the loan financing is disproportionate to the shareholding, interest at prime plus 2% per annum will be charged. All interest must be paid together with the capital sum of the loan at the end of the loan period. Management took a decision to impair this loan.

14 LOANS AND RECEIVABLES (CONTINUED)

Denel entered into a loan transaction with its subsidiary LMT Holdings SOC (RF) wherein Denel agreed to provide certain amounts of money as a loan that was due and payable on 1 November 2018. In assessing the recoverability of this loan, management considered the cash flow forecast of LMT as well its latest cash forecast. It was clear that LMT will not be in a position to repay this loan when it is due or in the next twelve months. The value of the loan at 31 March 2018 was R313 662 882 and the full amount was impaired.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
15 DEFERRED TAX						
Deferred tax assets	20	36				
Deferred tax liabilities	(1)	(1)	(1)	-	-	-
	19	35	(1)	-	-	-
Movement of deferred tax assets and liabilities:						
Balance at 1 April	35	47	12	-	-	-
Business acquired			13			
Income statement (refer note 7)	(16)	(12)	22	-	-	-
	19	35	47	-	-	-
Net deferred tax asset comprises:						
Advance payments received	941	1 036	1 014	904	937	885
Amounts due to customers for work invoiced, not yet performed	83	92	115	82	92	115
Capital allowances	109	35	52	43	27	49
Limit deferred tax asset to liability	(943)	(946)	(950)	(864)	(913)	(933)
Provisions	235	274	313	187	208	249
Other tax deductible differences	304	213	270	283	213	259
	729	704	814	635	564	624
Net deferred tax liability comprises:						
Amount due from customers for contract work	(505)	(469)	(449)	(482)	(413)	(448)
Capital allowances	(198)	(171)	(218)	(144)	(136)	(163)
Doubtful debt allowance	-	-	(4)	-	-	(4)
Prepayments made	(2)	(10)	(3)	(2)	(9)	(3)
Section 24 allowance on prepayments received	(3)	(13)	(2)	-	-	-
Other taxable differences	(2)	(6)	(139)	(7)	(6)	(6)
	(710)	(669)	(815)	(635)	(564)	(624)

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised. Had a full deferred tax asset been recognised on the calculated tax loss, the value of the deferred tax asset at year-end would have been R1 672m (2016/17: R1 650m, 2015/16: R1 647m) for the group and R1 567m (2016/17: R1 477m, 2015/16: R1 557m) for the company.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18 Rm	2016/17 Rm	2015/16 Rm	2017/18 Rm	2016/17 Rm	2015/16 Rm
16 INVENTORIES						
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:						
Consumable inventory	156	143	128	156	142	127
Finished products	791	601	498	761	571	485
Raw materials and bought-out components	319	422	498	159	196	351
Spare parts	111	132	90	-	-	-
Work-in-progress	1 453	1 325	1 127	1 115	864	722
	2 830	2 623	2 341	2 191	1 773	1 685
Impairment reconciliation						
Balance at 1 April	302	264	141	125	133	131
Business acquired	2	-	180	2	-	-
Impairment for the year (refer note 3)	25	38	(57)	29	(8)	2
Impairment reversal for the year (refer note 3)	(39)	-	-	(6)	-	-
	290	302	264	150	125	133
Amount relating to inventories which was recognised as an expense during the year (refer note 3)	2 462	4 032	3 025	1 388	3 097	1 868
Inventory purchased during the financial year	2 668	4 314	3 855	1 388	3 185	3 150
Denel reviewed inventory items that were previously treated as slow moving and identified items that will be used in future projects. This resulted in a reversal of the provision for slow moving inventory.	5	4	19	5	4	19

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
17 TRADE AND OTHER RECEIVABLES						
Financial assets (refer note 33.1)	1 527	2 325	2 704	1 360	1 921	2 258
Trade receivables (refer note 33.1)	1 384	2 221	2 647	1 167	1 829	2 195
Intragroup trade receivables				70	49	25
Interest receivables (refer note 33.1)	1	3	3	-	1	1
Sundry receivables (refer note 33.1)	142	101	54	-	42	37
Non-financial assets	65	63	168	52	47	157
Straight line receivables	24	21	21	24	21	21
Sundry receivables	41	42	147	28	26	136
	1 592	2 388	2 872	1 412	1 968	2 415
Accumulated impairment						
Financial assets	58	44	57	51	42	57
Impairment reconciliation						
Balance at 1 April	44	57	41	42	57	41
Business acquired	1	-	3	1	-	-
Impairment for the year (refer note 3)	15	2	17	9	3	16
Impairment reversal for the year (refer note 3)	-	(4)	(4)	-	-	(1)
Recovered during the year	(1)	-	-	(1)	(9)	-
Written off as non-collectible	(1)	(11)	-	-	(9)	1
	58	44	57	51	42	57

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

Refer note 39.3 and 39.4 w.r.t. prior year restatements.

18 ADVANCE PAYMENTS MADE

Current advance payments made	360	455	557	327	451	528

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

Refer note 39.3 w.r.t. prior year restatements.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18 Rm	2016/17 Rm	2015/16 Rm	2017/18 Rm	2016/17 Rm	2015/16 Rm
19 OTHER FINANCIAL ASSETS AND LIABILITIES						
19.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS						
Derivatives	89	102	73	80	34	73
Foreign exchange contracts	89	102	73	80	34	73
Firm commitments	104	107	288		107	288
Foreign exchange contracts designate as fair value hedges	104	107	138	104	107	138
Foreign exchange options designate as fair value hedges	-	-	150	(104)	-	150
	193	209	361	185	141	361
19.2 FINANCIAL LIABILITIES AT AMORTISED COST						
Derivatives	78	102	272	2	25	218
Foreign exchange contracts	78	78	122	2	25	68
Foreign exchange options	-	24	150	-	-	150
Firm commitments	133	68	59	133	68	59
Foreign exchange contracts designate as fair value hedges	133	68	59	133	68	59
	211	170	331	135	93	277
20 CASH AND CASH EQUIVALENTS						
20.1 CASH AND CASH EQUIVALENTS COMPRISES						
Cash and short-term deposits (refer note 20.2) [1]	1 269	2 021	2 003	1 061	1 556	1 788
20.2 CASH AND SHORT-TERM DEPOSITS						
Cash in bank	562	397	651	496	252	615
Banks	365	65	274	302	22	249
Banks (foreign currency)	197	332	377	194	230	366
Deposits	376	797	213	234	477	34
Local call deposits	376	797	213	234	477	34
Cash restricted for use [2]	331	827	1 139	331	827	1 139
Local banks	331	827	1 139	331	827	1 139
Refer note 20.1, 33.1, and 33.4	1 269	2 021	2 003	1 061	1 556	1 788

1. *Cash and cash equivalents are as per the consolidated statements of cash flows, page 103. The weighted average effective interest rate on call deposits is 6.65% (2016/17: 6.539%, 2015/16: 5.5%). Interest on cash in bank is earned at market rates. Company is incorporated in the UAE.*
2. *The funds included in cash and short-term deposits are available on demand, except for the amount relating to the Hoefyster project which is ringfenced, R331m (2016/17: R827m, 2015/16: R1 139m).*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
21 NON-CURRENT ASSETS HELD FOR SALE						
Balance at 1 April	-	156	84	-	156	84
Transfer (to)/from investment properties (refer note 10)	-	(156)	72	1	(156)	72
	-	-	156	-	-	156

The asset held for sale in respect of investment properties as at 31 March 2016 relates to the Philippi facility. The negotiations relating to the selling of the property as at 31 March 2016, were at an advanced stage with a 10% deposit received early 2016/17. The asset held for sale in 2015/16 was subsequently sold for R156m. Final payment was received from buyer on the 14th October 2016.

22 SHARE CAPITAL AND SHARE PREMIUM

22.1 AUTHORISED CAPITAL

	GROUP 2017/18 Rm	GROUP 2016/17 Rm	GROUP 2015/16 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm	COMPANY 2015/16 Rm
1 000 000 000 Class A ordinary shares of R1 each	1000	1 000	1 000	1 000	1 000	1 000
232 455 747 Class B ordinary shares of R1 each	232	232	232	232	232	232
	1 232	1 232	1 232	1 232	1 232	1 232

22.2 ISSUED CAPITAL

	GROUP 2017/18 Rm	GROUP 2016/17 Rm	GROUP 2015/16 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm	COMPANY 2015/16 Rm
Shares at par value						
Class A ordinary shares	1000	1 000	1 000	1 000	1 000	1 000
Class B ordinary shares	225	225	225	225	225	225
	1 225	1 225	1 225	1 225	1 225	1 225

22.3 SHARE PREMIUM

	GROUP 2017/18 Rm	GROUP 2016/17 Rm	GROUP 2015/16 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm	COMPANY 2015/16 Rm
Balance at 1 April	4951	4 951	4 951	4 951	4 951	4 951
Premium on shares issued during the year	-	-	-	-	-	-
	4 951	4 951	4 951	4 951	4 951	4 951

At year-end, the number of issued Class A ordinary shares were 1 000 000 000 (2016/17: 1 000 000, 2015/16: 1 000 000 000) and the number of issued Class B ordinary shares were 225 056 663 (2016/17: 225 056 663, 2015/16: 225 056 663).

The unissued shares are under the control of the South African Government, which is the sole shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur.

23 NON-CONTROLLING INTEREST

	GROUP 2017/18 Rm	GROUP 2016/17 Rm	GROUP 2015/16 Rm
Balance at 1 April	4	19	3
Share of net (loss)/profit in subsidiary	(109)	(12)	17
Preference dividends payable	-	(3)	(1)
	(105)	4	19

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18 Rm	2016/17 Rm	2015/16 Rm	2017/18 Rm	2016/17 Rm	2015/16 Rm
24 LOANS AND BORROWINGS						
Interest bearing loans and borrowings						
Finance lease (refer note 24.1)	5	8	14	-	-	-
Intra-group loans (refer note 24.2 and 39.2)				298	265	-
Unsecured loan (refer note 24.3)	-	148	-	-	-	-
Secured loan (refer note 24.4)	-	-	400	-	-	400
Secured mortgage (refer note 24.5)	-	1	2	-	-	-
Unsecured bonds (refer note 24.6)	-	689	1 573	-	689	1 573
Other	7	7	6	-	1	-
Non-current portion of interest bearing loans and borrowings	12	853	1 995	298	955	1 973
Current portion of interest bearing loans and borrowings	3 321	2 412	1 722	3 319	2 506	2 112
Finance lease (refer note 24.1)	3	3	4	-	-	-
Intra-group loans (refer note 24.2 and 39.2)				151	191	411
Unsecured loan (refer note 24.3)	-	94	-	-	-	-
Secured loan (refer note 24.4)	289	400	455	-	400	455
Secured mortgage (refer note 24.5)	-	1	1	-	1	1
Unsecured bonds (refer note 24.6)	490	685	315	-	685	315
Commercial paper (refer note 24.7 and 33.3)	200	200	200	-	200	200
Current portion of interest bearing loans and borrowings included under current liabilities	2 339	1 029	747	3 168	1 029	946
Total interest bearing loans and borrowings	3 333	3 265	3 717	3 617	3 461	4 712

	2017/18			2016/17			2015/16		
	Within one year	One to five years	Total	Within one year	One to five years	Total	Within one year	One to five years	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
24 LOANS AND BORROWINGS (CONTINUED)									
24.1 FINANCE LEASE									
Finance lease liabilities are payable as follows:									
Future minimum lease payments	3	5	8	4	10	14	5	16	21
Interest	-	-	-	(1)	(2)	(3)	(1)	(2)	(3)
Present value of minimum lease payments	3	5	8	3	8	11	4	14	18

During the financial year a decision was made to finance a high-speed five axis milling machine, called "Zimmerman". The total capital amount was EUR 1.3m (R23m). Interest is charged at a fixed rate of 5.75% p.a., with capital payable half yearly and interest quarterly. The lease agreement determined 10 capital instalments of EUR 114 750 of which the the final capital instalment will be on 4 October 2020, with the final interest payment on 10 December 2020. The total capital amount outstanding as at 31 March 2018 is EUR 573 750 (2016/17: EUR 573 750 (R11.6m), 2015/16: EUR 1.03m (R17.4m)). The carrying amount of the asset as at 31 March 2018 was R21m (2016/17: R21m, 2015/16: R21m). No finance loan existed for the year under review for the company, Denel SOC Ltd.

	COMPANY		
	2017/18	2016/17	2015/16
	Rm	Rm	Rm
24.2 INTRAGROUP LOANS			
Denel Vehicle Systems (Pty) Ltd	342	265	216
Non-current portion (refer note 39.2 w.r.t. 2016/17)	298	265	-
Current portion	44	-	216
Denel Aerostructurs SOC Ltd	85	191	195
Non-current portion	-	-	-
Non-current portion (refer note 39.2 w.r.t. 2016/17 and 2015/16)	85	191	195
Densecure SOC Ltd	22	-	-
Non-current portion	-	-	-
Current portion	22	-	-
	449	456	411

Intragroup loans are in actual fact financial instruments that are managed by the group's treasury function. Amounts owing to Denel SOC Ltd are charged at prime minus 1.5%, whilst amounts due by Denel SOC Ltd are charged at prime minus 4%. The audit committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. (Refer note 33.1). The amount comprises:

- Cash managed by the group's treasury function.
- Cash comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash equivalents that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

24 LOANS AND BORROWINGS (CONTINUED)

24.3 SECURED LOAN

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

24.4 SECURED LOAN

Secured loan from ABSA by Denel SOC Ltd for a period of two years to the amount of R400m. Interest is payable quarterly at a JIBAR linked interest rate with a credit spread of 150 basis points. The loan was fully repaid on 24 June 2017.

24.5 SECURED MORTGAGE

The secured mortgage relates to a mortgage bond by LMT SOC Ltd (RF). The carrying value of the asset is R9.5m (2016/17: R9m, 2015/16: R9.5m). The bond is repayable in monthly instalments with an interest rate of 2017/18: 9.00%, 2016/17: 9.5% (2015/16: 9.25%) p.a. is directly link to the prime interest rate. The final instalment will be in July 2018.

24.6 UNSECURED BONDS

Denel registered a R3bn (2016/17: R3bn, 2015/16: R3bn) Domestic Medium Term Note (DMTN) programme with the JSE which was increased to R4bn during the year under review. Under the programme Denel could raise senior and/or subordinated notes up to the registered amount. The amount at year-end was R3.03bn (2016/17: R2.539bn, 2015/16: R3bn). The programme contains cross-default (indebtedness of outstanding amount equals or exceeds 1% (2016/17: 1%, 2015/16: 1%) of total asset of issuer) and negative pledge clause (which precludes the company from encumbering any assets or revenue of the company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee, guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims which it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2018.

24.7 COMMERCIAL PAPER

During 2017/18 notes to the value of R2 340m (2016/17: R964m, 2015/16: R650m) were issued as follows:

	2017/18				2016/17				2015/16			
Rate	JBAR+	Issue date	Maturity date	Rm	JBAR+	Issue date	Maturity date	Rm	JBAR+	Issue date	Maturity date	Rm
3 month	1.50%	22-Sep-17	21-Sep-18	262	1.20%	27-Jan-17	29-Aug-17	400	0.95%	20-Nov-15	19-Nov-16	200
3 month	1.50%	29-Sep-17	28-Sep-18	585	1.20%	06-Feb-17	22-Sep-17	262	1.05%	25-Feb-16	27-Feb-17	150
3 month	1.45%	04-Dec-17	04-Sep-18	1 002	1.20%	27-Feb-17	05-May-17	150	1.05%	03-Mar-16	03-Mar-17	100
3 month	1.45%	22-Dec-17	04-Sep-18	461	1.20%	03-Mar-17	29-Aug-17	100				
3 month	1.20%	16-Mar-18	27-Sep-18	20								
Fixed rate	8.15%	16-Mar-18	27-Sep-18	10	8.35%	06-Feb-17	29-Aug-17	52	8.75%	28-Jan-16	17-Jan-17	200
				2 340				912				450

The commercial paper programme is a five-year debt instrument issued as part of the DMTN programme. The DMTN is registered for R4bn (2016/17: R3bn). R2.4bn (2016/17: R1.85bn) of the notes are secured by a government guarantee.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	%	%	%	%	%	%
24.8 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES						
Finance lease (fixed rate, refer note 24.1)	9.3	5.8	3.2	-	-	-
Intragroup loans (refer note 24.2 and 39.2)				6.3	6.5	
Local secured loans (floating rate, refer note 24.3)	JIBAR + 4.35%	JIBAR + 4.35%	8.5	JIBAR + 4.35%	JIBAR + 4.35%	8.5
Local secured loans (floating rate, refer note 24.4)	JIBAR + 1.50%	JIBAR + 1.20%	-	JIBAR + 1.50%	JIBAR + 1.20%	-
Secured mortgage (floating rate, refer note 24.5)	9.00	9.5	9.25	-	-	-
Local unsecured loans (fixed rate)	8.7	8.5	7.6	8.7	8.5	7.6
Current bank borrowings (floating rate)	9.3	9.2	8.4	9.3	9.2	8.4

	Rm	Rm	Rm	Rm	Rm	Rm
24.9 SUMMARY OF MATURITY OF BORROWINGS						
Maturing:						
Within three months	930	495	752	980	668	1 142
Between three and twelve months	2 391	1 917	970	2 339	1 838	970
Between one and two years	7	1	1 976	298	265	1 955
Between two and three years	2	699	2	-	690	1
Between three and five years	3	153	10	-	-	10
After five years	-	-	7	-	-	7
	3 333	3 265	3 717	3 617	3 461	4 085
25 ADVANCE PAYMENTS RECEIVED						
Non-current advance payments received	1 844	2 029	2 090	1 844	2 029	1 927
Current advance payments received	1 487	1 562	1 431	1 385	1 246	1 224
Total advance payments received	3 331	3 591	3 521	3 229	3 275	3 151
The carrying amount of the advance payment is expected to be settled as follows:						
Between three and twelve months	134	132	228	80	132	228
Less than one year	1 353	1 430	1 203	1 305	1 114	996
Between one and two years	155	722	552	155	722	552
Between two and three years	554	522	336	554	522	336
Between three and five years	1 135	468	277	1 135	468	277
More than five years	-	317	925	-	317	762
Refer note 28	3 331	3 591	3 521	3 229	3 275	3 151

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 (2016/17: eleven years, 2015/16: twelve years) and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	%	%	%	%	%	%
26 PROVISIONS						
26.1 NON-CURRENT PROVISIONS						
Contract risks and onerous contracts	6	1	3	-	-	-
Product warranty and recall	84	118	113	68	95	102
Site restoration	242	212	207	242	212	207
Counter trade	52	54	50	-	-	-
	384	385	373	310	307	309
26.2 CURRENT PROVISIONS						
Contract risks and onerous contracts	102	56	21	100	46	11
Performance guarantees (refer note 28.1) [1]	1	30	55	1	30	55
Product warranty and recall	139	143	144	81	82	91
Site restoration	-	7	7	-	7	7
Counter trade	34	30	71	31	20	62
Insurance provision	19	11	9	-	-	-
Other	1	144	253	(1)	102	186
	296	421	560	212	287	412
Total provisions	680	806	933	522	594	721

1. *Non-current provision for 2017/18: Rnil, 2016/17: Rnil (2015/16: Rnil).*

26 PROVISIONS (CONTINUED)

26.3 RECONCILIATION

GROUP

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Counter trade Rm	Insurance Rm	Other Rm	Total Rm
2017/18								
Balance at 1 April	57	30	261	219	84	11	144	806
Business acquired	-	-	-	-	-	-	5	5
Charged to the income statement	108	-	31	-	26	-	8	173
Realised	(37)	(29)	(39)	-	(1)	8	(154)	(252)
Unused amounts reversed	(20)	-	(30)	-	(23)	-	(3)	(76)
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	-	-	-	23	-	-	1	24
	108	**1**	**223**	**242**	**86**	**19**	**1**	**680**
2016/17								
Balance at 1 April	24	55	257	214	121	9	253	933
Charged to the income statement	38	-	89	-	-	2	140	269
Realised	(5)	(25)	(51)	(14)	(37)	-	(208)	(340)
Unused amounts reversed	-	-	(38)	-	-	-	(41)	(79)
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	-	-	4	19	-	-	-	23
	57	**30**	**261**	**219**	**84**	**11**	**144**	**806**
2015/16								
Balance at 1 April	25	44	109	216	49	7	198	648
Business acquired	-	-	69	-	42	-	-	111
Charged to the income statement	22	11	117	-	31	2	251	434
Realised	(24)	-	(29)	-	-	-	(193)	(246)
Unused amounts reversed	(1)	-	(10)	(18)	(1)	-	(3)	(33)
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	2	-	1	16	-	-	-	19
	24	**55**	**257**	**214**	**121**	**9**	**253**	**933**

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

26 PROVISIONS (CONTINUED)

26.3 RECONCILIATION (CONTINUED)

COMPANY

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Counter trade Rm	Insurance Rm	Other Rm	Total Rm
2017/18								
Balance at 1 April	46	30	177	219	20	-	102	594
Business acquired	-	-	-	-	-	-	5	5
Charged to the income statement	100	-	17	-	25	-	-	142
Realised	(36)	(29)	(21)	-	-	-	(107)	(193)
Unused amounts reversed	(10)	-	(24)	-	(14)	-	(2)	(50)
Unwinding of discount on provisions (refer note and 6.2)	-	-	-	23	-	-	1	24
	100	1	149	242	31	-	(1)	522
2016/17								
Balance at 1 April	11	55	193	214	62	-	186	721
Charged to the income statement	38	-	57	-	8	-	97	200
Realised	(3)	(25)	(41)	(14)	-	-	(159)	(242)
Unused amounts reversed	-	-	(36)	-	(50)	-	(22)	(108)
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	-	-	4	19	-	-	-	23
	46	30	177	219	20	-	102	594
2015/16								
Balance at 1 April	25	44	100	216	49	-	173	607
Charged to the income statement	9	-	110	-	14	-	190	323
Realised	(24)	11	(13)	-	-	-	(177)	(203)
Unused amounts reversed	(1)	-	(5)	(18)	(1)	-	-	(25)
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	2	-	1	16	-	-	-	19
	11	55	193	214	62	-	186	721

26 PROVISIONS (CONTINUED)

Contract risks and onerous contracts

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

Mbarc I

Denel Dynamics was contracted to design and manufacture missiles. Technical delays on both the development and production phases of the contract have led to increased costs. At the end of March 2018, the contract was estimated to be loss making. The total contract value is R1.843bn and the estimated cost and loss is R1.893bn, R50.1m respectively. The contract is expected to be complete during the 2018/19 financial year.

Demining Contract - Middle East

Denel Land Systems through its demining unit (Mechem) was contracted to conduct minefields clearance in the middle east region. Due to the programme delays resulting in escalated costs,the company has had to recognise a provision for onerous contracts of R27m. This contract is expected to be completed during 2018/19.

Production of Casspir vehicles

Denel Land Systems has been contracted to manufacture and deliver Casspir vehicle to a client in central Africa. Due to programme delays, the company expects the contract costs to exceed the revenue and has provided R2m as the lower costs of exciting the 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 for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Provisions relating to insurance contracts

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

Countertrade

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

Site restoration provision

The provision is for estimated costs for decontamination and site restoration. A provision for site restoration is recognised when the obligation arises as a result of the group's activities.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

26 PROVISIONS (CONTINUED)

Other provisions

Other provisions comprise the following:

Retrenchment costs

As a result of the restructuring of a particular contract, certain employees have been identified for retrenchment and will be awarded retrenchment packages. The retrenchment provision has been calculated based on the remuneration and the number of years of service of the affected persons, as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is Rnil (2016/17: R4m, 2015/16: R7m) for both group and company.

Variable remuneration

Provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is Rnil (2016/17: R140m, (2015/16: R201m) for the group and Rnil (2016/17: R97m, 2015/16: R144m) for the company.

Legal costs and disputes

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or entities within the group are involved, also refer to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R1m (2016/17: Rnil, 2015/16: Rnil) for both group and company.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
27 TRADE AND OTHER PAYABLES						
Financial liabilities	2 301	1 541	1 670	2 090	1 194	1 319
Trade payables	1 411	1 022	1 206	1 189	677	934
Intergroup trade payables				101	87	29
Interest accrued	15	35	46	15	35	46
Other accruals	875	484	418	785	395	310
Non-financial liabilities	1	1	1	-	-	-
Other non-financial liabilities	1	1	1	-	-	-
Refer note 39.4 w.r.t. prior year restatements of amounts disclosed	2 302	1 542	1 671	2 090	1 194	1 319

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.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
28 CONTINGENT LIABILITIES [1]						
28.1 GUARANTEES						
The following guarantees were issued by the group:						
Advance payment guarantees						
Guarantees to banks for credit facilities of subsidiaries	259	259	629	39	59	629
Guarantees to local authorities	28	28	13	15	15	13
Participating guarantees	17	4	12	17	4	12
Performance guarantees	948	1 268	1 261	806	1 047	1 261
Other guarantees	252	145	223	251	145	223
Total of guarantees issued	1 504	1 704	2 138	1 128	1 270	2 138
Guarantees issued on behalf of associated companies	(293)	(317)	(200)	(94)	(117)	(200)
Advance payment guarantees	(10)	(13)	-	(10)	(13)	-
Guarantees to banks for credit facilities of subsidiaries	(239)	(259)	(200)	(39)	(59)	(200)
Performance guarantees	(34)	(34)	-	(34)	(34)	-
Other guarantees	(10)	(11)	-	(11)	(11)	-
	1 211	1 387	1 938	1 034	1 153	1 938

28.2 LITIGATION

Litigation comprises legal claims lodged and claims that may be lodged against the group. Owing to the sensitivity of the claims and the measures that will be taken to limit the liabilities, specific disclosure of items may negatively influence the outcome and the group's actions.

The aggregate amount of significant claims lodged against the company not specifically provided for is R42m (2016/17: Rnil, 2015/16: 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.

1. *No Contingent liabilities were restated for 2016/17 or 2017/18 as per the respective Integrated Reports.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

28.3 CONTRACT LOSSES

One of the group's subsidiaries is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately 2017/18: R2.5bn (2016/17: R2.5bn, 2015/16: R2.5bn) and an estimated contract loss of approximately R1.4bn (2015/16: R1.4bn). This loss has not been raised as a provision following a written commitments received from the shareholder stating its support including financial for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country. During 2012 various onerous terms and conditions to the contract was renegotiated to mitigate risk to the company and shareholder.

28.4 SITE RESTORATION

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 2017/18: 15% (2016/17: 15%, 2015/16: 15%) of the estimated cost as recommended by the consultants was not included in determining the site restoration provision. The contingency would have been to cover risks arising from the unknown depth of contamination and the volume of the material to be cleaned up. After an initial clean up, the site will be tested for explosive ordinates to assess whether there should be any further clean up, which may impact the provision. Had the contingency been included, the provision would have been increased by 2017/18: R33.9 (2016/17: R31.6m, 2015/16: R31m) for both, group and company.

28.5 COUNTERTRADE

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

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

- Production work share and technology transfer.
- Procurement of products and services from suppliers in the buyers' country.
- Participation in a business venture in the buyers' country.

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations. The group issued guarantees to the value of R93m (2016/17: R111m, 2015/16: 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.

	2017/18			2016/17			2015/16		
	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

28 CONTINGENT LIABILITIES [1] (CONTINUED)

28.5 COUNTERTRADE (CONTINUED)

Countertrade obligation									
Total countertrade obligation	4 460	6 963	11 423	7 134	5 176	12 310	7 370	3 251	10 621
Obligation discharged	(2 439)	(1 730)	(4 169)	(1 181)	(922)	(2 103)	(245)	(541)	(786)
Outstanding obligation	2 021	5 233	7 254	5 953	4 254	10 207	7 125	2 710	9 835
To be settled by third party	-	(3 429)	(3 429)	-	(2 227)	(2 227)	-	(565)	(565)
Net obligation of the group	**2 021**	**1 804**	**3 825**	**5 953**	**2 027**	**7 980**	**7 125**	**2 145**	**9 270**
Penalties									
Maximum penalty for non-compliance	177	262	439	566	213	779	693	184	877
Third party obligation	-	(171)	(171)	-	(111)	(111)	-	80	80
Net group exposure	**177**	**91**	**268**	**566**	**102**	**668**	**693**	**264**	**957**
Guarantees issued									
Group issued	55	85	140	110	-	110	75	-	75
Third party guarantees	-	20	20	-	21	21	-	24	24
	55	105	160	110	21	131	75	24	99
Provision to settle obligation	1	-	1	84	-	84	121	-	121

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

29 NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

29.1 RECONCILIATION OF PROFIT WITH CASH RETAINED FROM OPERATIONS

	GROUP			COMPANY		
	2017/18 Rm	2016/17 Rm	2015/16 Rm	2017/18 Rm	2016/17 Rm	2015/16 Rm
Net profit before tax	(1 753)	305	515	(1 584)	51	380
Adjusted for:	339	129	510	163	257	426
Depreciation [1] (refer note 3)	127	142	131	93	103	100
Amortisation of intangible assets [2] (refer note 3)	9	11	16	3	7	12
Remeasurement of derivatives	169	(199)	48	143	(154)	1
Finance costs (refer note 6.1)	359	352	280	377	359	289
Finance income (refer note 6.2)	(67)	(101)	(87)	(92)	(113)	(73)
Dividends received	(62)	-	-	(208)	-	(56)
Decrease in provisions	(154)	(151)	155	(100)	(151)	95
Impairment raised on intangible assets [1] (refer note 3)	237	-	163	-	-	159
Share of profit of associated companies (refer note 13)	(226)	(155)	(132)			
Fair value adjustment of Investment properties (refer note 4)	(53)	(48)	(162)	(53)	(48)	(162)
Operating profit before changes in net current assets	(1 414)	434	1 025	(1 421)	303	800
Changes in net current assets	1 143	137	(1 596)	828	298	(1 202)
Increase in inventories	(196)	(282)	(711)	(437)	(88)	(403)
Decrease/(Increase) in trade and other receivables	532	620	(1 513)	398	584	(1 411)
Increase/(Decrease) in trade and other payables	708	(201)	628	837	(198)	512
Cash utilised in operations	(271)	571	(571)	(593)	606	(496)

30 CAPITAL COMMITMENTS

	GROUP			COMPANY		
	2017/18 Rm	2016/17 Rm	2015/16 Rm	2017/18 Rm	2016/17 Rm	2015/16 Rm
Approved and contracted for						
Property, plant and equipment	122	19	59	106	6	52
Land and buildings	6	1	1	5	1	-
Computer equipment	-	2	1	-	1	-
Machinery and equipment	114	16	55	99	4	50
Plant	-	-	1	-	-	1
Vehicles	2	-	1	2	-	1
	122	19	59	106	6	52

31 NON-CANCELLABLE LEASES

OPERATING LEASES

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

GROUP

	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
2017/18						
Less than one year	135	-	-	-	-	135
Between one and five years	528	-	-	-	-	528
More than five years	354	-	-	-	-	354
	1 017	-	-	-	-	1 017
2016/17						
Less than one year	63	4	3	3	-	73
Between one and five years	230	1	12	4	-	247
More than five years	22	-	-	-	-	22
	315	5	15	7	-	342
2015/16						
Less than one year	77	5	3	2	-	87
Between one and five years	288	14	10	3	-	315
More than five years	120	-	-	-	-	120
	485	19	13	5	-	522

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
31 NON-CANCELLABLE LEASES (CONTINUED)						
OPERATING LEASES (CONTINUED)						
COMPANY						
2017/18						
Less than one year	122	-	-	-	-	122
Between one and five years	474	-	-	-	-	474
More than five years	326	-	-	-	-	326
	922	**-**	**-**	**-**	**-**	**922**
2016/17						
Less than one year	65	2	3	1	-	71
Between one and five years	230	1	12	3	-	246
More than five years	22	-	-	-	-	22
	317	**3**	**15**	**4**	**-**	**339**
2015/16						
Less than one year	65	4	3	1	-	73
Between one and five years	288	14	10	2	-	314
More than five years	120	-	-	-	-	120
	473	**18**	**13**	**3**	**-**	**507**

Non-cancellable leases of buildings includes the Kempton Park site which Denel sold during 2007 to ACSA's subsidiary, Precinct 2A, on a sale and leaseback basis. The original lease period was five years with an option to extend for a further two periods of five years each, which Denel exercised during 2012. The lease payments are fixed for the ten year period and quarterly lease payments are based on the purchase value of the property discounted at a fixed interest rate of 9.25% (2016/17: 9.25% 2015/16: 9.25%). Should Denel extend the lease beyond the current ten year period, the lease payments will be based on market related rates.

32 RELATED PARTIES

Related party transactions are disclosed in terms of the requirements of the relevant standard. Materiality has been considered in the disclosure of these transactions. Amounts smaller than R0.5m have not been included in the table.

National Government and state controlled units

Denel SOC Ltd is fully controlled by its sole shareholder, the South African Government represented by the Department of Public Enterprises (DPE).

The group operates in an economic environment currently dominated by business units directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government in SA, only parties within the national sphere of government will be considered to be related parties.

The list of public units in the national sphere of Government was provided by National Treasury.

Post-employment benefit plans

Other related parties also consist of post retirement benefit plans (refer note 35).

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals who are members of the Denel executive committee and the board of directors, as well as the entities' executive committees are regarded as key management.

Close family members of key management personnel are considered to be those family members who may influence, or be influenced by key management in their dealings with the entity. There were no material transactions other than the directors’ emoluments detailed in the remuneration section of the governance report, pages 78 to 81.

Entities within the group

Denel SOC Ltd is the ultimate parent company of the group. The company advanced loans to these enits in the group during the current and previous financial years as part of the financing plan. Other transactions within the group were on commercial terms and conditions.

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

Refer notes 8, 12, 13, 36 and 37 for further detail.

Terms and conditions of transactions with related parties

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

32 RELATED PARTIES (CONTINUED)

The following transactions were carried out with related parties:

	GROUP			COMPANY			
	National government	Major national public units	Associated companies	National government	Major national public units	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017/18							
Purchases of goods	-	4	452	-	4	50	452
Sales of goods	759	542	30	676	542	3	30
Purchases of properties and other assets	-	-	11	-	37	-	-
Sale of properties and other assets	7	15	5	-	-	-	-
Services rendered	256	47	152	255	47	201	152
Services received	7	15	5	7	15	23	5
Lease cash received	-	-	42	-	-	13	42
Guarantees issued to related parties	275	2 149	-	275	2 149	-	-
Guarantees issued to third parties on behalf of related parties	2 430	-	90	2 430	-	-	90
Finance income	-	-	-	-	-	36	-
Finance costs	-	-	-	-	-	44	-
Dividends received	-	-	108	-	-	99	108
Outstanding balances payable	80	10	452	52	9	101	452
Outstanding balances receivable	100	27	170	100	27	70	170
Advance payments received	2 290	41	39	2 290	41	-	39
Advance payments made	-	-	13	-	-	32	13
Allowance of doubtful debts	2	3	-	2	3	-	-
Amounts written off during the period	-	-	-	-	2	-	-
Settlement of liabilities on behalf of another related party	-	-	152	-	-	-	-

32 RELATED PARTIES (CONTINUED)

	GROUP			COMPANY			
	National government	Major national public units	Associated companies	National government	Major national public units	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2016/17							
Purchases of goods	3	102	235	3	102	69	233
Sales of goods	1 230	723	468	1 117	723	2	467
Services rendered	331	77	37	-	-	-	-
Services received	47	15	9	47	-	-	-
Lease cash received	17	3	71	17	3	12	71
Guarantees issued to related parties	2 954	109	-	2 954	109	-	-
Guarantees issued to third parties on behalf of related parties	-	-	117	-	-	-	-
Guarantees issued to third parties by related parties	1 850	-	-	1 850	-	-	117
Finance income	-	-	-	1	-	21	-
Finance costs	-	-	-	-	-	24	-
Dividends received	-	-	-	-	-	-	1
Outstanding balances payable	13	5	138	13	5	87	137
Outstanding balances receivable	86	75	87	86	75	49	87
Provision for penalties paid	8	-	-	8	-	-	-
Advance payments received	2 496	63	74	2 496	63	-	74
Advance payments made	1	-	35	1	-	-	35
Allowance of doubtful debts	-	-	-	-	-	-	-

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY			
	National government	Major national public units	Associated companies	National government	Major national public units	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
32 RELATED PARTIES (CONTINUED)							
2015/16							
Purchases of goods	-	14	441	-	14	56	439
Sales of goods	1 625	628	10	1 518	628	3	4
Services rendered	512	30	-	365	30	65	-
Services received	17	15	-	17	15	15	-
Lease payments	-	48	-	-	48	-	-
Lease cash received	24	-	-	24	-	11	-
Guarantees issued to third parties on behalf of related parties	-	-	124	-	-	-	124
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-
Finance income	-	-	-	-	-	1	-
Finance costs	-	-	-	-	-	11	-
Dividends received	-	-	25	-	-	31	25
Outstanding balances payable	8	1	158	-	-	29	158
Outstanding balances receivable	52	159	59	8	1	25	53
Provision for penalties paid	4	-	-	52	159	-	-
Advance payments received	-	-	177	4	-	-	177
Advance payments made	-	-	51	-	-	31	51
Allowance of doubtful debts	-	-	-	-	-	-	-

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
32 RELATED PARTIES (CONTINUED)						
Short-term employee benefits	23	61	48	13	48	45
Post-employee benefits	1	4	3	1	3	3
Share-base payments	7	-	2	8	-	2
Termination benefits	-	11	7	-	11	7
	31	76	60	22	62	57

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

	2017/18	2016/17	2015/16
	Rm	Rm	Rm
32 RELATED PARTIES (CONTINUED)			
Directors' fees paid or accrued to the non-executive directors of the group			
Mr LD Mantsha	859	891	597
Ms M Kgomongoe	336	367	343
Ms PM Mahlangu	306	279	187
Mr Mahumapelo	-	-	278
Ms N Mandindi	-	96	212
Ms R Mokoena	23	223	171
Mr NJ Motseki	-	204	238
Mr TJ Msomi	74	255	235
Lt Gen TM Nkabinde (rtd)	313	290	205
Ms KPS Ntshavheni	360	345	321
	2 271	2 950	2 787

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18								2016/17	2015/16
	Salaries	Pension fund contri-bution	Medical aid contribution	Other [13]	Company contribution	Short-term incentive	Lump sum [14]	Total	Total	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
32 RELATED PARTIES (CONTINUED)										
Amounts paid/accrued to executives of the group										
Executive directors										
Mr R Saloojee [1]									6 407	4 725
Mr F Mhlontlo [2]									9 827	3 497
Mr ZN Ntshepe [3]	2 777	99	56	404	177	-	-	3 513		
Mr ZM Mhlwana [4]	2 977	80	71	341	268	-	3 286	7 023		
Sub-total	5 754	179	127	745	444	-	3 286	10 536	16 234	8 222
Prescribed officers										
Mr ZN Ntshepe									4 421	4 009
Mr ZM Mhlwana									5 514	3 262
Ms N Davies [5]	1 588	59	96	206	105	-	-	2 054	3 197	3 142
Mr T Kleynhans [6]	2 599	96	128	327	170	-	-	3 320	2 779	-
Mr GTT Mbhele [7]	3 303	119	90	275	212	-	-	3 999	4 097	-
Ms NF Msiza [8]	-	-	-	-	-	-	-	-	1 603	-
Ms V Qinga [9]	1 685	62	94	140	111	-	-	2 093	3 022	-
Mr JM Wessels [10]	-	-	-	-	-	-	-	-	1 006	3 365
Ms V Xaxa [11]	1 712	62	55	143	111	-	1 632	3 715	-	-
Mr O Mothudi [12]	612	25	22	51	45	-	-	754	-	-
Sub-total	11 500	423	486	1 141	753	-	1 632	15 936	25 639	13 778
Total	17 255	602	612	1 887	1 198	-	4 918	26 472	41 873	22 000

1. *Resigned on 8 November 2016.*
2. *Resigned on 30 August 2016.*
3. *Appointed as GCEO on 1 November 2017.*
4. *Appointed as GCFO on 1 November 2017.*
5. *Resigned on 31 January 2018.*
6. *Appointed as executive manager on 1 August 2016.*
7. *Appointed as executive manager on 10 April 2016.*
8. *Appointed as executive manager on 7 April 2016, resigned on 28 February 2017.*
9. *Appointed as executive manager on 1 April 2016.*
10. *Resigned 30 September 2016.*
11. *Appointed as Group legal and Company Secretary on 1 June 2017.*
12. *Appointed as Chief Internal Audit on 1 September 2017.*
13. *Other includes mainly 13th cheques, car, cellphone and other travel allowances.*
14. *For 2017/18 this amount relates to a lump sum for variation of terms of employment, whilst for 2016/17 the amounts paid relates to lost of office*

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33 FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The roles and responsibilities of the Audit committee include:

- Approval of all counter parties;
- Approval of new instruments;
- Approval of foreign exchange transaction company policy;
- Approval of the investment policy;
- Approval of corporate treasury policy and procedure manual; and
- Recommend to the board for approval of the long-term funding requirements.

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

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33.1 CREDIT RISK

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

Receivables from customers

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

- The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country;
- The previous business record that the existing client had with entities within the group (includes but is not limited to payment history); and
- Obtain the most recent credit rating from the group's treasury department, of the country that the potential customer operates in. Countries are graded by major international banks and these grading are published on a regular basis. The group uses the international publication, "Institutional investor" as a basis for its country risk assessments.

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

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

Financial instruments managed by the group's treasury function

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

Credit exposure and concentration of credit risk

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

GROUP

	2017/18			2016/17			2015/16		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Trade receivables [1]	248	1 136	1 384	237	1 987	2 221	327	2 320	2 647
Government and related units	82	391	473	141	245	386	245	717	962
Non-government units	166	745	911	96	1 742	1 835	82	1 603	1 685
Sundry receivables [1]	131	11	142	100	1	101	53	1	54
Government and related units	82	1	83	57	1	58	3	-	3
Non-government units	49	10	59	43	-	43	50	1	51
Interest receivables [1]	1	-	1	-	-	3	3	-	3
Government and related units	1	-	1	-	-	-	-	-	-
Non-government units		-	-		-	3	3	-	3
Loans and receivables (refer note14)	-	-	-	-	-	-	-	-	-
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits [2]	1 072	197	1 269	1 689	332	2 021	1 626	377	2 003
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	1 072	197	1 269	1 689	332	2 021	1 626	377	2 003
	1 452	1 344	2 796	2 026	2 320	4 346	2 009	2 698	4 707

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

Credit exposure and concentration of credit risk

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

COMPANY

	2017/18			2016/17			2015/16		
	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm
Trade receivables [1]	226	1 603	1 167	226	1 603	1 829	313	1 882	2 195
Government and related units	77	391	468	134	245	379	232	210	442
Non-government units	58	641	699	92	1 358	1 450	81	1 672	1 753
Sundry receivables [1]	88	1	89	41	1	42	36	1	37
Government and related units	42	1	43	41	1	42	3	-	3
Non-government units	46	-	46	-	-	-	33	1	34
Interest receivables [1]	-	-	-	1	-	1	1	-	1
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	1	-	1	1	-	1
Loans and receivables (refer note14)	-	-	-	265	-	265	50	-	50
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	-	-	-	265	-	265	50	-	50
Cash and short-term deposits [2]	867	228	1 095	1 326	(35)	1 291	1 422	316	1 738
Government and related units	-	-	-	-	-	-	-	-	-
Non-government units	867	228	1 095	1 326	(35)	1 291	1 422	316	1 738
	1 181	1 170	2 351	1 859	1 569	3 428	1 822	2 199	4 021

1. *Refer note 17.*
2. *Refer note 20.*

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

Credit exposure and concentration of credit risk

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

Ageing

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

	2017/18				2016/17				2015/16			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Trade receivables [1]	1 395	-	-	1 384	2 221	42	(42)	2 221	2 647	55	(55)	2 647
Not past due	360	-	-	349	1 173	1	(1)	1 173	2 089	-	-	2 089
GROUP												
Less than 30 days	51	-	-	51	198	-	-	198	98	-	-	98
30 to 60 days	35	-	-	35	126	-	-	126	228	-	-	228
61 to 90 days	63	-	-	63	20	-	-	20	16	-	-	16
More than 90 days	886	-	-	886	704	41	(41)	704	216	55	(55)	216
Sundry receivables [1]	132	-	0	142	101	1	(1)	101	54	-	-	54
Not past due, not impaired	124	-	-	134	97	-	-	101	54	-	-	54
Past due												
Less than 30 days	6	-	-	6	-	-	-	-	-	-	-	-
More than 90 days	2	-	-	2	4	1	(1)	4	-	2	(2)	-
Interest receivables [1]	1	-	-	1	3	-	-	3	3	-	-	3
Not past due, not impaired	1	-	0	1	3	-	-	3	3	-	-	3
Past due												
Cash and short-term deposits [2]	1 269	-	-	-	2 021	-	-	2 021	2 003	-	-	2 003
Not past due, not impaired	1 269	-	-	-	2 021	-	-	2 021	2 003	-	-	2 003
					4 346	43	(43)	4 346	4 707	55	(55)	4 707

1. *Refer note 16.*
2. *Refer note 18.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

Ageing (continued)

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

	2017/18				2016/17				2015/16			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Trade receivables [1]	1 165	-	-	1 167	1 677	-	152	1 829	2 195	55	(55)	2 195
Not past due	257	-	-	259	942	-	152	1 094	1 748	-	-	1 748
COMPANY												
Less than 30 days	33	-	-	33	119	-	-	119	46	-	-	46
30 to 60 days	16	-	-	16	9	-	-	9	169	-	-	169
61 to 90 days	54	-	-	54	-	-	-	-	16	-	-	16
More than 90 days	805	-	-	805	607	-	-	607	216	55	(55)	216
Sundry receivables [1]	89	-	-	82	42	-	-	42	37	-	-	37
Not past due, not impaired	82	-	-	82	39	-	-	39	37	-	-	37
Past due	-	-	-	0								
Less than 30 days	6	-	-	0	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	0	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	0	-	-	-	-	-	-	-	-
More than 90 days	1	-	-	0	3	-	-	3	-	-	-	-
Interest receivables [1]	-	-	-	-	1	-	-	1	1	-	-	3
Not past due, not impaired	-	-	-	-	1	-	-	1	1	-	-	3
Past due												
Cash and short-term deposits [2]	1 269	-	-	1 269	1 556	-	-	1 556	1 788	-	-	1 788
Not past due, not impaired	1 269	-	-	1 269	1 556	-	-	1 556	1 788	-	-	1 788
Past due												
	2 523	-	-	2 518	3 276	-	152	3 428	4 021	55	(55)	4 023

1. *Refer note 16.*
2. *Refer note 18.*

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 CREDIT RISK (CONTINUED)

	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
Security held over non-derivative financial assets						
Irrevocable Letters of Credit confirmed by foreign banks	147	332	347	147	332	347

33.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive cost. This risk may arise when there are mismatches between receipts and payments. As well as when where there are limited funds available to fund that gap.

The group has a centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. This ensures that updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. Further to that the group maintains a range of funding sources and liquidity contingency plans.

The group received government guarantees of R3.4bn (2016/17: R1.85bn) to raise borrowings. These guarantees expire on 30 September 2018 (refer note 24.6).

Surplus funds are deposited in liquid assets (i.e. negotiable certificates or deposits and call deposits) (refer note).

	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
SA rand (ZARm)	139	134	275	139	134	275
US dollar (US$m)	-	-	50	-	-	50

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.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 LIQUIDITY RISK (CONTINUED)

Exposure to liquidity risk

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

	Contractual undiscounted cash flows							
	Carrying amount	Total cash flows		Less than three months	Between three and twelve months		Between one and five years	More than five years
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
2017/18								
Interest bearing loans and borrowings (refer note 24)	3 333	3 333		930	2 390		13	-
Trade and other payables (refer note 27)	2 301	2 301		758	1 542		-	-
Derivative financial liabilities (refer note 19.2)	78	78		77	1		-	-
Guarantees (refer note 28.1)	1 211	1 211		1 211	-		-	-
	6 923	**6 923**		**2 976**	**3 933**		**13**	**-**
2016/17								
Interest bearing loans	3265	3266		495	1889		881	-
Loans from associated companies	-	-		-	-		-	-
Trade and other payables (refer note 27)	1 541	1 541		890	672		-	-
Derivative financial liabilities (refer note 19.2)	102	102		92	10		-	-
Guarantees (refer note 28.1)	1 387	1 387		1 387	-		-	-
	6 295	**6 295**		**2 865**	**2 598**		**853**	**-**
2015/16								
Interest bearing loans and borrowings (refer note 24)	3 717	3 717		736	970		2 004	7
Trade and other payables (refer note 27)	1 670	1 670		1 554	116		-	-
Derivative financial liabilities (refer note 19.2)	272	272		44	186	42	-	-
Guarantees (refer note 28.1)	1 938	1 938		(4 499)	1 279	3 404	1 754	-
	7 597	7 597		(2 165)	2 551		3 758	7

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 LIQUIDITY RISK (CONTINUED)

	Contractual undiscounted cash flows							
	Carrying amount	Total cash flows		Less than three months	Between three and twelve months		Between one and five years	More than five years
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY								
2017/18								
Interest bearing loans and borrowings (refer note 24)	3 617	3 617		828	2 789		-	-
Loans from associated companies	-	-		-	-		-	-
Trade and other payables (refer note 27)	2 090	2 090		637	1 453		-	-
Derivative financial liabilities (refer note 19.2)	2	2		1	1		-	-
Guarantees (refer note 28.1)	1 034	1 034		1 034	-		-	-
	6 743	6 743		2 500	4 243		-	-
2016/17								
Interest bearing loans and borrowings (refer note 24)	3 461	3 461		476	2 296		689	-
Trade and other payables (refer note 27)	1 194	1 194		648	505		-	-
Derivative financial liabilities (refer note 19.2)	25	25		15	10		-	-
Guarantees (refer note 28.1)	1 153	1 153		(4 307)	1 155		2 552	1 753
	5 833	5 833		(3 168)	3 966		3 241	1 753
2015/16								
Interest bearing loans and borrowings (refer note 24)	4 085	4 712		736	965		3 011	-
Trade and other payables (refer note 27)	1 319	1 319		1 319	-		-	-
Derivative financial liabilities (refer note 19.2)	218	218		218	-		-	-
Guarantees (refer note 28.1)	1 938	1 938		1 938	-		-	-
	7 560	8 187		4 211	965		3 011	-

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK

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

Entities

The divisions and subsidiaries are responsible for the preparation and presentation of market risk information as it affects the relevant entity. Information will be submitted to treasury where it is monitored and further analysed to be used in the decision making process. In certain instances an entity will prepare and use market risk information for its own purposes.

Treasury

Treasury is responsible for reporting to the Audit committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the GFD and executive committee on a weekly and monthly basis respectively.

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

Interest rate risk

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

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

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.3 MARKET RISK (CONTINUED)						
At the reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:						
Bank overdraft (refer note 20.1)	-	-	-	-	-	-
Cash and short-term deposits (refer note 20.1)	22	49	74	10	49	14
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper (refer note 24 en 24.6)	10	52	200	10	52	200
Loans and borrowings (refer note 24)	8	603	613	-	585	587
Loans and other receivables	-	-	-	-	-	-
Treasury asset	-	-	-	-	-	-
Fixed rate instruments						
Fair value sensitivity analysis for fixed rate instruments						
The group does not account for any fixed rate financial-assets and liabilities at fair value through profit and loss-therefore a change in interest rates at the reporting date-would not affect profit and loss.						
Variable rate instruments						
Bank overdraft (refer note 20.1)	-	-	-		-	-
Cash and short-term deposits (refer note 20.1)	1247	1 972	1 929	1051	1 507	1 774
Commercial paper (refer note 24 and 24.7)	190	148	-	10	148	-
Loans and borrowings (refer note 24)	3325	2 662	3 104	3617	2 876	3 498
Loans and other receivables	-	-	-	-	-	-
Treasury asset	-	-	-		-	-
Cash flow sensitivity analysis for variable rate instruments						
A change of 50 basis points in interest rates at the-reporting date would have increased or decreased profit and loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit and loss.						
Cash and cash equivalents						
Net effect on profit and loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.	10	4	11	10	4	11

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK (CONTINUED)

CURRENCY RISK

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

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

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

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUED)

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

GROUP

	2017/18 USD m	2016/17 EUR m	2015/16 USD m	2017/18 EUR m	2016/17 USD m	2015/16 EUR m
Assets	104	63	101	92	533	307
Trade receivables	36	44	48	77	42	81
Controlled foreign currency accounts (CFC)	10	4	17	6	2	5
Firm commitments (export revenue)	58	15	36	9	489	221
Liabilities	(68)	(31)	(15)	(28)	(27)	163
Trade payables	(46)	(22)	(7)	(1)	(11)	(12)
Firm commitments (import)	(22)	(9)	(8)	(27)	(16)	175
Gross balance sheet exposure	36	32	86	64	506	470
Forecast transactions (revenue)	58	15	38	7	358	208
Forecast transactions (purchases)	0	(5)	(16)	(19)	(16)	(175)
Gross balance sheet exposure	94	42	108	52	848	503
Export revenue	(58)	(15)	(36)	(9)	(489)	(221)
Imports	22	9	8	19	16	175
Net exposure	58	36	80	62	375	457
Forward exchange contracts						

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18 USD m	2016/17 EUR m	2015/16 USD m	2017/18 EUR m	2016/17 USD m	2015/16 EUR m
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.3 MARKET RISK (CONTINUED)						
CURRENCY RISK (CONTINUED)						
COMPANY						
Assets	78	54	77	80	533	307
Trade receivables	29	39	42	69	42	81
Controlled foreign currency accounts (CFC)	9	3	6	1	2	5
Firm commitments (export revenue)	40	12	29	10	489	221
Liabilities	(67)	(29)	(12)	(13)	(27)	163
Trade payables	(45)	(20)	(4)	(6)	(11)	(12)
Firm commitments (import)	(22)	(9)	(8)	(7)	(16)	175
Gross balance sheet exposure	11	25	65	67	506	470
Forecast transactions (revenue)	40	12	27	8	358	208
Forecast transactions (purchases)	0	(4)	(7)	(7)	(16)	(175)
Gross balance sheet exposure	51	33	85	68	848	503
Export revenue	(40)	(12)	(29)	(10)	(489)	(221)
Import	22	9	8	7	16	175
Net exposure	33	30	64	65	375	457
Forward exchange contracts						
Group	6,0		39	63	24	62
Company	3,0		29	44	24	62

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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUE)

FOREIGN CURRENCY DERIVATIVES

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

	2017/18			2016/17			2015/16		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP									
Revenue contracts									
Euro (EUR)	15 011 978	225	218	8 785 769	87	78	221 311 733	6 042	6 177
Sterling (GBP)	-	0	0	57 977	1	-	360 144	8	8
Switzerland (CHF)	2 450 046	30	28	513 143	7	6	5 934 796	92	93
US Dollar (USD)	58 578 490	752	674	36 033 191	8 960	9 889	489 128 520	18 786	19 830
		1 007	920		9 055	9 973		24 928	26 108
Purchase contracts									
Euro (EUR)	9 783 591	147	147	19 147 023	453	506	175 128 868	3 896	3 941
Australian Dollar (AUD) [1]	-	0	0	-	-	-	87 600	-	-
Sterling (GBP)	1 027 807	18	17	2 315 530	25	31	7 450 919	714	732
Switzerland (CHF)	91 378	0	0	191 678	1	1	13 410 216	206	206
US Dollar (USD)	22 088 741	264	264	8 447 633	139	161	15 620 439	244	258
		429	428		618	699		5 060	5 137
COMPANY									
Revenue contracts									
Euro (EUR)	11 907 253	177	173	9 902 618	140	146	214 440 296	4 789	4 805
Sterling (GBP)	-	-	-	79 700	1	1	360 144	8	8
Switzerland (CHF)	2 450 046	30	28	513 413	7	6	5 934 796	92	93
US Dollar (USD)	39 503 414	520	448	2 863 527	400	401	423 787 592	6 342	6 348
		727	649		548	554		11 231	11 254
Purchase contracts									
Euro (EUR)	8 756 809	131	132	7 164 023	106	106	169 783 973	2 873	2 895
Australian Dollar (AUD) [1]	-	-	-	-	-	-	87 600	-	-
Sterling (GBP)	1 027 807	18	17	487 401	8	8	4 242 349	92	93
Switzerland (CHF)	91 378	-	-	191 678	1	1	13 410 216	206	206
US Dollar (USD)	21 968 653	262	262	7 530 173	125	125	14 966 801	221	225
		411	411		240	240		3 392	3 419

1. *2015/16: Purchase contracts: Foreign currency notial amount AUD87 600, Local currency R8 287, Fair value R108 879.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18			
	One year Rm	Two years Rm	Three to five years Rm	Total Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)				
33.3 MARKET RISK (CONTINUED)				
CURRENCY RISK (CONTINUE)				
MATURITY TABLE				
GROUP				
Foreign currency derivatives				
Revenue contracts				
Euro (EUR)	15 011 978	-	-	15 011 978
Sterling (GBP)	21 521	-	-	21 521
Switzerland (CHF)	2 450 046	-	-	2 450 046
US Dollar (USD)	58 578 490	-	-	58 578 490
Purchase contracts				
Euro (EUR)	9 783 591	-	-	9 783 591
Australian Dollar (AUD)	-	-	-	-
Sterling (GBP)	1 027 807	-	-	1 027 807
Switzerland (CHF)	91 378	-	-	91 378
US Dollar (USD)	22 088 741	-	-	22 088 741
COMPANY				
Foreign exchange contracts				
Revenue contracts				
Euro (EUR)	11 907 253	-	-	11 907 253
Sterling (GBP)	-	-	-	
Switzerland (CHF)	2 450 046	-	-	2 450 046
US Dollar (USD)	39 503 414	-	-	39 503 414
Purchase contracts				
Euro (EUR)	8 756 809	-	-	8 756 809
Australian Dollar (AUD)	-	-	-	-
Sterling (GBP)	1 027 807	-	-	-
Switzerland (CHF)	91 378	-	-	-
US Dollar (USD)	21 968 653	-	-	-

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.

2016/17				2015/16			
One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Rm	Rm	Rm	Rm	Rm			
8 785 769	-	-	8 785 769	221 311 733	-	-	221 311 733
57 977	-	-	57 977	360 144	-	-	360 144
513 143	-	-	513 143	5 934 796	-	-	5 934 796
33 490 757	2 542 434	-	36 033 191	459 400 487	29 728 033	-	489 128 520
19 147 023	-	-	19 147 023	171 235 033	2 688 548	1 205 287	175 128 868
-	-	-	-	87 600	-	-	87 600
2 315 530	-	-	2 315 530	6 092 139	1 358 780	-	7 450 919
191 678	-	-	191 678	13 318 838	-	91 378	13 410 216
8 447 633	-	-	8 447 633	15 620 439	-	-	15 620 439
9 902 618	-	-	9 902 618	214 440 296	-	6 871 437	221 311 733
79 700	-	-	79 700	360 144	-	-	360 144
513 413	-	-	513 413	5 934 796	-	-	5 934 796
2 863 527	-	-	2 863 527	423 787 592	-	65 340 928	489 128 520
7 164 023	-	-	7 164 023	168 252 931	325 755	1 205 287	169 783 973
-	-	-	-	87 600	-	-	87 600
487 401	-	-	487 401	4 109 139	133 210	-	4 242 349
191 678	-	-	191 678	13 318 838	-	91 378	13 410 216
7 530 173	-	-	7 530 173	14 966 801	-	-	14 966 801

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Foreign currency notional amount (m)								
	2017/18			2016/17			2015/16		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
33 FINANCIAL RISK MANAGEMENT (CONTINUED)									
33.3 MARKET RISK (CONTINUED)									
FOREIGN CURRENCIES									
Export transactions									
Euro (EUR) [1]	-	-	-	-	-	-	5	77	84
Sterling (GBP) [2]	-	-	-	-	5	5	1	11	10
Switzerland (CHF)	-	-	-	-	-	-	1	4	4
US Dollar (USD)	-	-	-	21	289	292	46	705	705
		-	**-**		**294**	**297**		**797**	**803**
Firm commitments relating to foreign exchange contracts									
Euro (EUR)		-	-		-	-	10	170	177
Sterling (GBP)		-	-		-	-	-	-	-
Switzerland (CHF)		-	-		-	-	-	-	-
US Dollar (USD)		-	-		-	-	59	729	572
			-		**-**	**-**		**899**	**749**
Firm commitments relating to foreign exchange options									
Import transactions									
Euro (EUR)		-	-	6	90	90	13	196	212
Sterling (GBP) [3]		-	-		2	2	1	3	3
Switzerland (CHF) [4]		-	-		1	1	1	15	14
US Dollar (USD) [5]		-	-		5	5	1	7	7
		-	**-**		**98**	**98**		**221**	**236**

Firm commitments relating to foreign exchange contracts

1. *2016/17: Purchase contracts: €381 014, Local currency R5 287 986, Fair value R5 570 805.*
2. *2016/17: Purchase contracts: £27 800, Local currency R450 060, Fair value R471 827.*
3. *2016/17: Revenue contracts: £133 210, Local currency R2 222 209, Fair value R2 2295 315.*
4. *2016/17: Revenue contracts: CHF91 378, Local currency R1 215 133, Fair value R1 239 864.*
5. *2016/17: Revenue contracts: US$382 534, Local currency R5 033 246, Fair value R5 308 488.*

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 MARKET RISK (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

MATURITY

	Foreign currency notional amount (m)											
	2017/18				2016/17				2015/16			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Export contracts												
Euro (EUR)	-	-	-	-	-	-	-	-	5	-	-	5
Sterling (GBP)	-	-	-	-	-	-	-	-	1	-	-	1
Switzerland (CHF)	-	-	-	-	-	-	-	-	1	-	-	1
US Dollar (USD)	-	-	-	-	21	-	-	21	46	-	-	46
Firm commitments relating to foreign exchange contracts												
Euro (EUR)	-	-	-	-	-	-	-	-	10	-	(10)	-
Sterling (GBP)	-	-	-	-	-	-	-	-	-	-	-	-
Switzerland (CHF)	-	-	-	-	-	-	-	-	-	-	-	-
US Dollar (USD)	-	-	-	-	-	-	-	-	59	-	(59)	-

Firm commitments relating to foreign exchange options

Export transactions

Firm commitments relating to foreign exchange contracts

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

Import transactions

Firm commitments relating to foreign exchange contracts

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

Commodity risk

1. *2016/17: Export contracts: €381 014 matures within one year.*
2. *2016/17: Exoports contracts: £27 800 matures within one year.*

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (CONTINUED)					
33.4 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					
2017/18					
Cash and cash equivalents (refer note 20.1 and 20.2)	1 269			1 269	1 269
Financial assets					
Loans and receivables (refer note 14)	-			-	-
Other financial assets (refer note 19.1)			193	193	193
Trade and other receivables (refer note 17)	1 527			1 527	1 527
	2 796		**193**	**2 989**	**2 989**
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)		-		-	-
Associated companies: Loans		(3 333)		(3 333)	(3 333)
Interest bearing borrowings (refer note 24)			(211)	(211)	(211)
Other financial liabilities (refer note 19.2)		(6)		(6)	(6)
Preference dividends payable		(2 301)		(2 301)	(2 301)
		(5 640)	**(211)**	**(5 851)**	**(5 851)**
Financial liabilities					
Net financial assets/(liabilities)	**2 796**	**(5 640)**	**(18)**	**(2 862)**	**(2 862)**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
2016/17					
Cash and cash equivalents (refer note 20.1 and 20.2)	2 021			2 021	2 021
Financial assets					
Loans and receivables (refer note 14)	-			-	-
Other financial assets (refer note 19.1)			209	209	209
Trade and other receivables (refer note 17)	2 325			2 325	2 325
	4 346		**209**	**4 555**	**4 555**
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)					
Associated companies: Loans		-		-	-
Interest bearing borrowings (refer note 24)		(3 265)		(3 265)	(3 265)
Other financial liabilities (refer note 19.2)			(170)	(170)	(170)
Preference dividends payable		(6)		(6)	(6)
Trade and other payables (refer note 27)		(1 541)		(1 541)	(1 541)
Bank overdraft (refer note 20.1)		-		-	-
		(4 812)	**(170)**	**(4 982)**	**(4 982)**
Financial liabilities					
Net financial assets/(liabilities)	4 346	(4 812)	39	(427)	(427)
2015/16					
Cash and cash equivalents (refer note 20.1 and 20.2)	2 003			2 003	2 003
Financial assets					
Loans and receivables (refer note 14)	-			-	-
Other financial assets (refer note 19.1)			361	361	361
Trade and other receivables (refer note 17)	2 704			2 704	2 704
	4 707		361	5 068	5 068
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)					
Associated companies: Loans		-		-	-
Interest bearing borrowings (refer note 24)		(3 717)		(3 717)	(3 717)
Other financial liabilities (refer note 19.2)			(331)	(331)	(331)
Preference dividends payable		(3)		(3)	(3)
Trade and other payables (refer note 27)		(1 670)		(1 670)	(1 670)
Bank overdraft (refer note 20.1)		-		-	-
		(5 390)	(331)	(5 721)	(5 721)
Financial liabilities					
Net financial assets/(liabilities)	4 707	(5 390)	30	(653)	(653)

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit and loss Rm	Carrying amount Rm	Fair value Rm
COMPANY					
2017/18					
Financial assets					
Cash and cash equivalents (refer note 20.1 and 20.2)	1 556			1 556	1 556
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)					
Other financial assets (refer note 19.1)			141	141	141
Trade and other receivables (refer note 17)	1 921			1 921	1 921
	3 477		141	3 618	3 618
Financial liabilities					
Loans and receivables (refer note 14)					
Loans and borrowings (refer note 24)		(3 461)		(3 461)	(3 461)
Other financial liabilities (refer note 19.2)			(93)	(93)	(93)
Trade and other payables (refer note 27)		(1 194)		(1 194)	(1 194)
		(4 655)	(93)	(4 748)	(4 748)
Net financial assets/(liabilities)	3 477	(4 655)	48	(1 130)	(1 130)

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit and loss Rm	Carrying amount Rm	Fair value Rm
2016/17					
Financial assets					
Cash and cash equivalents (refer note 20.1 and 20.2)	1 556			1 556	1 556
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)					
Other financial assets (refer note 19.1)			141	141	141
Trade and other receivables (refer note 17)	1 921			1 921	1 921
Subsidiaries: Loans and receivables (refer note 12)	601			601	601
	4 078		141	4 219	4 219
Financial liabilities					
Loans and receivables (refer note 14)					
Loans and borrowings (refer note 24)		(3 005)		(3 005)	(3 005)
Other financial liabilities (refer note 19.2)			(93)	(93)	(93)
Trade and other payables (refer note 27)		(1 194)		(1 194)	(1 194)
Subsidiaries: Loans and borrowings (refer note 12)		(456)		(456)	(456)
Bank overdraft (refer note 20.1)		-		-	-
		(4 655)	(93)	(4 748)	(4 748)
Net financial assets/(liabilities)	4 078	(4 655)	48	(529)	(529)
2015/16					
Financial assets					
Cash and cash equivalents (refer note 20.1 and 20.2)	1 788			1 788	1 788
Loans and receivables (refer note 14)	-			-	-
Other financial assets (refer note 19.1)			361	361	361
Trade and other receivables (refer note 17)	2 258			2 258	2 258
Subsidiaries: Loans and receivables (refer note 12)	386			386	386
	4 432		361	4 793	4 793
Financial liabilities					
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)					
Associated companies: Loans		-		-	-
Loans and borrowings (refer note 24)		(4 085)		(4 085)	(4 085)
Other financial liabilities (refer note 19.2)			(277)	(277)	(277)
Trade and other payables (refer note 27)		(1 319)		(1 319)	(1 319)
Subsidiaries: Loans and borrowings (refer note 12)		(195)		(195)	(195)
Bank overdraft (refer note 20.1)		-		-	-
		(5 599)	(277)	(5 876)	(5 876)
Financial liabilities					
Net financial assets/(liabilities)	4 432	(5 599)	(277)	(1 083)	(1 083)

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

DETERMINATION OF FAIR VALUES

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Various valuation techniques and assumptions are utilised for the purpose of calculating fair value. The group does not hold any financial instruments traded in an active market, except for the investment in listed equity instruments. Fair value is determined using valuation techniques as outlined below. Where possible, inputs are based on quoted prices and other market determined variables. The calculation of fair value requires various inputs into the valuation methodologies used.

The source of the inputs used affects the reliability and accuracy of the valuations. Significant inputs have been classified into the hierarchical levels in line with IFRS 13, as shown below.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 19.1 . During the year there were no transfers between any of the levels of fair value measurements. Transfers between levels are considered to have occurred at the date of the event or change in circumstances.

Financial instrument	Valuation method	Significant inputs	Fair value hierarchy of inputs
Investment properties (refer note 10)			
Derivative financial assets (refer note 19.1)	Refer note 1.4.6.	Refer note 1.4.6.	Level 3
Financial assets Non-current assets held for sale (refer note 21) Cash and cash equivalents (refer note 20.1 and 20.2) Trade and other receivables (refer note 17) Financial liabilities Derivative financial liabilities (refer note 19.2)	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 21)	Refer note 1.4.18.	Refer note 1.4.18.	Level 3
Trade and other payables (refer note 24)	Refer note 1.4.4. **	Refer note 1.4.4. **	Level 2
Trade and other receivables (refer note 15)	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2
Financial liabilities			
Derivative financial liabilities (refer note 16.2)	Refer derivative financial assets in this table.	Refer derivative financial assets in this table.	Level 2
Loans and borrowings (refer note 21)	Refer note 1.4.4.	Refer note 1.4.4.	Level 2
Trade and other payables (refer note 24)	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2

All other financial assets and liabilities carrying amount approximates fair value. The categorisation of each class of financial asset and liability, including their fair values, are included below:

* *The fair value of these instruments approximates their carrying value, due to their short-term nature.*
** *The carrying value is considered to reflect its fair value.*

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

GROUP

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
2017/18						
Investment properties (refer note 10)	794	794	-	-	794	794
Other financial assets (refer note 19.1)	193	193	-	209	(16)	193
Non-current assets held for sale (refer note)	-	-	-	-	-	-
Assets measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	2 021	2 021	-	2 021	-	2 021
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)	-	-	-	-	-	-
Assets not measured at fair value						
Trade and other receivables (refer note 17)	2 325	2 325	-	2 325	-	2 325
	5 333	5 333	-	4 555	778	5 333
Loans and receivables (refer note 14)						
Other financial liabilities (refer note 19.2)	(170)	(170)	-	(170)	-	(170)
Liabilities measured at fair value						
Loans and borrowings (refer note 24)	(3 265)	(3 265)	-	(3 265)	-	(3 265)
Bank overdraft (refer note 20.1)	-	-	-	-	-	-
Preference dividends payable	(6)	(6)	-	(6)	-	(6)
Trade and other payables (refer note 27)	(1 541)	(1 541)	-	(1 612)	71	(1 541)
	(4 982)	(4 982)	-	(5 053)	71	(4 982)
Liabilities not measured at fair value						
Net value	351	351	-	(498)	849	351

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)						
GROUP						
2016/17						
Investment properties (refer note 10)	728	728	-	-	728	728
Other financial assets (refer note 19.1)	209	209	-	209	-	209
Assets measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	2 021	2 021	-	2 021	-	2 021
Trade and other receivables (refer note 17)	2 325	2 325	-	2 325	-	2 325
	5 283	5 283	-	4 555	728	5 283
Loans and receivables (refer note 14)						
Other financial liabilities (refer note 19.2)	(170)	(170)	-	(170)	-	(170)
Loans and borrowings (refer note 24)	(3 265)	(3 265)	-	(3 265)	-	(3 265)
Preference dividends payable	(6)	(6)	-	(6)	-	(6)
Trade and other payables (refer note 27)	(1 541)	(1 541)	-	(1 612)	71	(1 541)
	(4 982)	(4 982)	-	(5 053)	71	(4 982)
Liabilities not measured at fair value						
Net value	**301**	**301**	**-**	**(498)**	**799**	**301**
2015/16						
Investment properties (refer note 10)	680	680	-	-	680	680
Other financial assets (refer note 19.1)	361	361	-	361	-	361
Non-current assets held for sale (refer note 21)	156	156	-	-	156	156
Assets measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	2 003	2 003	-	2 003	-	2 003
Trade and other receivables (refer note 17)	2 704	2 704	-	2 704	-	2 704
	5 904	5 904	-	5 068	836	5 904
Assets not measured at fair value						
Other financial liabilities (refer note 19.2)	(331)	(331)	-	(331)	-	(331)
Liabilities measured at fair value						
Loans and borrowings (refer note 24)	(3 717)	(3 717)	-	(3 717)	-	(3 717)
Preference dividends payable	(3)	(3)	-	(3)	-	(3)
Trade and other payables (refer note 27)	(1 670)	(1 670)	-	(1 741)	71	(1 670)
	(5 721)	(5 721)	-	(5 792)	71	(5 721)
Liabilities not measured at fair value						
Net value	**183**	**183**	**-**	**(724)**	**907**	**183**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

COMPANY

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
2017/18						
Investment properties (refer note 10)	-	719	-	-	719	719
Other financial assets (refer note 19.1)	141	141	-	141	-	141
Non-current assets held for sale (refer note 21)	-	-	-	-	-	-
Assets measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	1 556	1 556	-	1 556	-	1 556
Assets not measured at fair value						
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)						
Trade and other receivables (refer note 17)	1 921	1 921	-	1 921	-	1 921
	3 618	4 337	-	3 618	719	4 337
Loans and receivables (refer note 14)						
Other financial liabilities (refer note 19.2)	(93)	(93)	-	(93)	-	(93)
Liabilities measured at fair value						
Liabilities not measured at fair value						
Loans and borrowings (refer note 24)	(3 461)	(3 005)	-	(3 005)	-	(3 005)
Trade and other payables (refer note 27)	(1 194)	(1 292)	-	(1 292)	-	(1 292)
Bank overdraft (refer note 20.1)	-	-	-	-	-	-
	(4 748)	(4 390)	-	(4 390)	-	(4 390)
Associated companies: Loans						
Net value	(1 130)	(53)	-	(772)	719	(53)

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	
33 FINANCIAL RISK MANAGEMENT (CONTINUED)						
33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)						
COMPANY						
2016/17						
Investment properties (refer note 10)	719	719	-	-	719	719
Other financial assets (refer note 19.1)	141	141	-	141	-	141
Assets measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	1 556	1 556	-	1 556	-	1 556
Assets not measured at fair value						
Cash held on behalf of associated companies (refer note 20.1, 20.2 and 20.3)						
Subsidiaries: Loans and receivables (refer note 12)	-	601	-	601	-	601
Trade and other receivables (refer note 17)	1 921	1 921	-	1 921	-	1 921
	4 337	**4 938**	**-**	**4 219**	**719**	**4 938**
Liabilities measured at fair value						
Loans and receivables (refer note 14)						
Other financial liabilities (refer note 19.2)	(93)	(93)	-	(93)	-	(93)
Liabilities not measured at fair value						
Loans and borrowings (refer note 24)	(3 461)	(3 005)	-	(3 005)	-	(3 005)
Trade and other payables (refer note 27)	(1 194)	(1 292)	-	(1 292)	-	(1 292)
Bank overdraft (refer note 20.1)	-	-	-	-	-	-
	(4 748)	**(4 390)**	**-**	**(4 390)**	**-**	**(4 390)**
Associated companies: Loans						
Net value	**(411)**	**548**	**-**	**(171)**	**719**	**548**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

COMPANY

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total
2016/17						
Assets measured at fair value						
Investment properties (refer note 10)	671	671	-	-	671	671
Other financial assets (refer note 19.1)	361	361	-	361	-	361
Non-current assets held for sale (refer note 21)	156	156	-	-	156	156
Assets not measured at fair value						
Cash and cash equivalents (refer note 20.1 and 20.2)	1 788	1 788	-	1 788	-	1 788
Subsidiaries: Loans and receivables (refer note 12)	386	386	-	386	-	386
	5 620	**5 620**	**-**	**4 793**	**827**	**5 620**
Liabilities measured at fair value						
Other financial liabilities (refer note 19.2)	(277)	(277)	-	(277)	-	(277)
Liabilities not measured at fair value						
Loans and borrowings (refer note 24)	(3 890)	(3 890)	-	(3 890)	-	(3 890)
Subsidiaries: Loans and borrowings (refer note 12)	(195)	(195)	-	(195)	-	(195)
Trade and other payables (refer note 27)	(1 417)	(1 417)	-	(1 417)	-	(1 417)
	(5 779)	**(5 779)**	**-**	**(5 779)**	**-**	**(5 779)**
Net value	**(159)**	**(159)**	**-**	**(986)**	**827**	**(159)**

For non-financial assets refer to the accounting policy note 1.3.7 for the detail of the valuation technique.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

34 CAPITAL MANAGEMENT

The board's policy is to maintain a strong capital base to maintain stakeholder confidence and to sustain future development of the business. The group considers its capital to comprise of total equity. The group may adjust its capital structure by way of issuing new shares and is dependent on its shareholder for additional capital, as required. The group manages its capital structure in light of changes in economic conditions and the board of directors monitors the capital adequacy, solvency and liquidity of the group on a continuous basis. Refer directors' report on page 94 for more information.

During the year under review, the group posted a loss of R1.75bn as a result of losses on major contracts as well as liquidity constraints. This has eroded the equity of the group to a level of R0.92bn. During the 2018/19 financial year the group will apply to the Shareholder for a capital injection in order to review its cost structure in line with the anticipated future revenue growth.

Since the approval of the strategy, the group has been recapitalised by a total of R4.2bn. The shareholder has also provided a government guarantee totalling R3.3bn to enable the group to raise borrowings.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times.

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

The company is not subject to externally imposed capital requirements. However, one of the company's subsidiaries, Densecure SOC Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements.

The minimum capital requirements applicable to Densecure SOC Ltd were maintained at all times during the year. In accordance with SA insurance legislation and regulations, the company is required to maintain a minimum Capital Adequacy Requirement (CAR) ratio of 1. This means the company is required to hold regulatory admissible net assets of greater than 1 to the solvency capital requirement, as at the reporting date, the company has a CAR ratio of 7.11 (2016/17: 7.11).

For detail on the quantitative data of what Denel manages as capital (total equity), please refer to the Consolidated statements of changes in equity.

35 POST-RETIREMENT OBLIGATIONS

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

35.1 DENEL MEDICAL BENEFIT TRUST

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made into a separate trustee administrated fund. Denel does not make annual contributions as the trust is fully funded. However, R26m (2016/17: R28m, 2015/16: R26m) was contributed during the year under review to reimburse the trust for the impact of early retirements.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2018 indicated the trust is over-funded. There are currently no unrecognised actuarial losses, past services cost and contribution holidays due to the group. Therefore, there is no actuarial surplus recognised on the statement of financial position and no plan assets are recognised due to statutory requirements. The DMBT's expected long-term investment return was based on the yields of the R186 South African Government bond plus a risk premium of 1.25% p.a.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise and is exploring the possibility of limiting its exposure through a voluntary settlement process. For further detail refer to the directors' report on page 94 to 99.

The net asset cannot be recognised by Denel according to the IAS 19 standards given that Denel cannot access the assets from the Trust to derive economic benefit, as this belong to the beneficiaries of the DMBT.

	2017/18 Rm	2016/17 Rm	2015/16 Rm
35.1 DENEL MEDICAL BENEFIT TRUST (CONTINUED)			
The actuarially calculated liability compared to assets is as follows for the defined benefit plans:			
Change in defined benefit funded obligation			
Present value of funded obligations at 1 April	503	481	521
Service cost benefits earned during the year	1	1	3
Interest cost on projected benefit obligation	46	46	41
Actuarial losses	(24)	-	-
Remeasurement	(26)	3	(6)
Benefits paid	(91)	(28)	(26)
Liability buy-out	-	-	(52)
Present value of funded obligations at 31 March	409	503	481
Change in plan assets			
Fair value of plan assets at 1 April	1 335	1 288	1 314
Expected return on plan assets	128	125	104
Remeasurement	9	(50)	(53)
Benefits paid	(26)	(28)	(26)
Member voluntary payout exits from scheme	(96)	-	(51)
Fair value of plan assets at 31 March	1 350	1 335	1 288
Fund excess	941	832	807
Excess not recognised	(941)	(832)	(807)
Unrecognised actuarial gains	-	-	-
Net benefit expenses			
Service cost	1	1	3
Interest cost	46	46	41
Expected return on plan assets	128	125	104
Net actuarial loss recognised during the year	(24)	-	6
Income	151	172	154

	%	%	%
The principal actuarial assumptions used for accounting purposes were:			
Expected return on plan assets	8,9	9,5	9,9
Expected medical inflation	7,7	8,7	9,4

	Number	Number	Number
The beneficiary members from the funds are as follows:			
Active members	63	72	82
Retired members	658	839	845

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18		2016/17		2015/16	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	%	%	%	%	%	%
35.1 DENEL MEDICAL BENEFIT TRUST (CONTINUED)						
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	11	9	11	9	11	9

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Amounts for the current and previous seven years are as follows:							
Defined benefit obligation	(409)	(503)	(481)	(611)	(759)	(755)	(674)
Plan assets	1 350	1 335	1 288	1 328	1 168	1 057	1 151
Surplus	941	832	807	717	409	302	477
Experience adjustments on plan liabilities	-	3	(5)	(35)	(25)	(25)	(4)

35.2 DENEL RETIREMENT FUND

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

36 SEGMENT REPORTING

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

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

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

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

Business segments

The group comprises the following main operating segments:

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

The results of business units with revenue less than 10% (2016/17: 10%, 2015/16: 10%) of the group revenue are aggregated within an operating segment which products and services closest relates to that of the specific entity.

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
36 SEGMENT REPORTING (CONTINUED)								
2017/18								
Segment revenue	365	1 374	704	2 150	444	421	(460)	4 998
Revenue from external customers	361	1 308	620	2 091	442	176		4 998
Intergroup revenue	4	66	84	59	2	245	(460)	-
Contribution	7%	26%	12%	42%	9%	4%		100%
Segment operating profit/(loss)	(145)	(462)	(69)	(871)	(140)	54	(54)	(1 687)
Net finance income/(costs)	7	(47)	21	24	(31)	(266)	-	(292)
Finance income	8	(35)	21	109	-	27	(63)	67
Finance cost	(1)	(12)	-	(85)	(31)	(293)	63	(359)
Share of results of associated companies							226	226
Income tax expense	-	-	-	(16)	-	(2)	-	(18)
Net profit/(loss) for the year	(138)	(509)	(48)	(863)	(171)	(214)	172	(1 771)
Segment assets	626	2 351	1 209	5 061	762	5 861	(4 760)	11 110
Deferred tax assets								(20)
Total assets								11 090
Segment liabilities	456	2 328	666	4 484	530	3 931	(2 227)	10 168
Deferred tax liabilities								(1)
Total liabilities								10 167
Cash flows from:								
Operating activities	(110)	(472)	154	(321)	(22)	72	(17)	(716)
Investing activities	11	(26)	67	(19)	-	159	(297)	(105)
Financing activities	(3)	-	-	(92)	-	164	-	69
Capital expenditure	24	26	19	29	-	10	(48)	60
Impairment losses raised/(reversed)	7	14	11	-	-	321	(76)	277
Depreciation/amortisation i.r.o. segment assets	22	36	17	32	8	23	(2)	136
Revenue from major customers								
South African Government	1	385	-	545	84	-		1 015
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	66		66

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

36 SEGMENT REPORTING (CONTINUED)

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Solutions Rm	Munitions Rm	Non-core Rm	Consolidation entries Rm	Total Rm
2016/17 (RESTATED)								
Segment revenue	553	1 809	1 092	3 998	582	(2 594)	(442)	4 998
Revenue from external customers	541	1 717	1 070	3 934	574	(2 838)	-	4 998
Intergroup revenue	12	92	22	64	8	244	(442)	-
Contribution	11%	34%	21%	79%	11%	-56%		100%
Segment operating profit/(loss) [1]	3	(81)	101	282	(77)	(129)	164	401
Net finance income/(costs)	10	(15)	11	43	(33)	(267)	-	(251)
Finance income [2]	11	(11)	12	105	-	53	(69)	101
Finance cost	(1)	(4)	(1)	(62)	(33)	(320)	69	(352)
Share of results of associated companies	-	-	-	-	-	-	-	155
Income tax expense	-	-	-	(21)	-	(2)	-	(23)
Net profit/(loss) for the year {1 and 2}	13	(96)	112	304	(110)	(398)	164	282
Segment assets [1]	845	1 822	886	6 243	903	6 002	(3 663)	13 038
Deferred tax assets								(36)
Total assets								13 002
Segment liabilities [2]	510	1 291	383	4 923	499	3 872	(1 769)	9 709
Deferred tax liabilities								1
Total liabilities								9 710
Cash flows from:								
Operating activities	7	(104)	122	569	70	(279)	(9)	376
Investing activities	(1)	(88)	(121)	(585)	(12)	413	487	93
Financing activities	(6)	182	(1)	(48)	(58)	(47)	(473)	(451)
Capital expenditure	30	21	10	92	-	5	(93)	65
Impairment losses raised/(reversed)	9	-	3	23	1	-	-	36
Depreciation/amortisation i.r.o. segment assets	541	36	14	39	18	(495)	-	153
Revenue from major customers								
South African Government	-	553	-	786	222	37	-	1 578
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	48	-	48

1. *Refer note 39.1.*
2. *Refer note 39.7.*

37 SUBSIDIARIES AND ASSOCIATED COMPANIES[1]

The following unlisted companies are subsidiaries of Denel SOC Ltd and its subsidiaries:

	2017/18				2016/17				2015/16			
	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%	Rm	Rm	Rm	%
Denel Aerostructures SOC Ltd	1 689	1 689	251	100	1 689	1 689	145	100	1 689	1 689	141	100
Densecure SOC Ltd	8	8	(22)	100	8	8	-	100	8	8	-	100
LMT Holdings SOC Ltd (RF)[2]	27	16	314	51	27	16	265	51	27	16	50	51
Denel Vehicle Systems (Pty) Ltd	25	828	(342)	100	25	828	(265)	100		828	(216)	100
Turbomeca Africa (Pty) Ltd[3]	-	94	-	100								
Aggregated amounts less than R0.5m[1 and 4]	-	-	-	100	-	-	-	100	-	-	-	100
Total investment		2 635	201			2 541	145			2 541	(25)	
Less: Accumulated impairment		(1 055)	(650)			(1 055)	(336)			(1 055)	(336)	
Net investment of Denel SOC Ltd		1 580	(449)			1 486	(191)			1 486	(361)	

1. Amounts smaller than R0.5m due to rounding are not reflected against the entities but in aggregate on this page.

2. This includes R16m (2016/17: R16m, 2015/16: R16m) preference shares

3. Refer note 8.

4. The investment made in Denel Asia LLC, was less than R0.5m (refer note 8.3). Denel Asia LLC is the only subsidiary in which Denel SOC Ltd's investment is less than R0.5m.Refer notes 12 and 14.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	2017/18				2016/17				2015/16			
	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/ (by) Denel SOC Ltd	Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%	Rm	Rm	Rm	%
37 SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED) [1]												
Subsidiary shareholding by LMT Holdings SOC Ltd (RF), a subsidiary of Denel SOC Ltd [5]												
LMT Products SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
LMT Engineering SOC Ltd	-	7	-	51	-	7	-	51	-	7	-	51
LMT Properties SOC Ltd	-	-	-	51	-	-	-	51	-	-	-	51
Net investment of LMT Holdings SOC Ltd (RF)		7	-			7	-			7	-	
The following unlisted companies are associated companies of Denel SOC Ltd and its subsidiaries:												
Turbomeca Africa (Pty) Ltd	-	-	-		100	49	-	49	100	49	-	49
Hensoldt Optronics (Pty) Ltd [6 and 7]	190	57	-	30	190	57	-	30	190	57	-	30
Rheinmetal Denel Munition (Pty) Ltd	757	371	-	49	757	371	-	49	757	371	-	49
Tawazun Dynamics LLC	47	23	-	49	47	23	-	49	47	23	-	49
Net investment of Denel SOC Ltd [8]		451	-			500	-			500	-	
Associated company shareholding by Denel Vehicle Systems (Pty) Ltd, a subsidiary of Denel SOC Ltd												
Pioneer Land Systems LLC [8]	-	-	-	49	-	-	-	49	-	-	-	49
Net investment of Denel Vehicle Systems (Pty) Ltd		-	-			-	-			-	-	

5. *Shares are not held by the group but effective management control is exercised in these entities*
6. *70% shareholding by Airbus DS Optronics GmbH was sold to Hensoldt Optronics (Pty) Ltd on 28 February 2017. This has not altered the shareholding of Denel. Airbus DS Optronics (Pty) Ltd's name was subsequently changed (after 31 March 2017) to Hensoldt Optronics (Pty) Lt*
7. *Refer note 13.*
8. *Equity partnership was established between International Golden Group PJSC and Denel Vehicle Systems (Pty) Ltd. The agreement was entered into on 5 February 2014. Apart from the issuing of 100 non-dividible non-negotiable shares at UAE$3 000 per share in 2014, no other transactions to date took place . International Golden Group PJSC holds 51% in Pioneer Land Systems LLC whilst Denel Vehicle Systems (Pty) Ltd holds 49% of the shares issued*

	2017/18 Rm	2016/17 Rm	2015/16 Rm
37 SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED) [1]			
Aggregated (loss)/profit of subsidiaries	(354)	74	99

The country of incorporation of subsidiaries are not different from Denel, except for Denel Asia Co Ltd which is a Hong Kong based company.

The country of incorporation of associated companies are not different from Denel, except for Tawazun Dynamics LLC and Pioneer Land Systems LLC which are both UAE based companies.

All associated companies are strategic to the business activities of Denel.

Non-controlling interest voting rights are not different from % shareholding

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
38 IRREGULAR EXPENDITURE						
Balance at 1 April	116	49	-	43	47	-
Add: Irregular expenditure incurred in the prior year	22	7	5	-	-	5
Deviations from the procurement process not adequately approved	-	2	-	-	-	-
Tax clearance certificates not obtained	22	5	5	-	-	5
Add: Irregular expenditure incurred in current year	62	139	44	33	35	42
Suppliers not registered on the central supplier database	-	8	-	-	2	-
Evaluation criteria not adequately specified	-	4	-	-	2	-
Deviations from the procurement process not adequately approved	-	107	42	-	24	40
Tax clearance certificates not obtained[1]	5	5	2	4	-	2
Bids not adequately approved	-	8	-	-	-	-
Contract extension not adequately approved	-	7	-	-	7	-
Quotation process not initiated from the National Treasury Central Supplier Database[2]	4	-	-	4	-	-
Inadequate deviation process followed[3]	53	-	-	25	-	-
Less: Amounts condoned	-	(79)	-	-	(39)	-
Add: Irregular expenditure identified by the external auditors	313	-	-	136	-	-
Irregular expenditure awaiting condonation	513	116	49	212	43	47

Details of the 2017/18 irregular expenditure

1. *Twenty four (24) case [eight (8) cases relating to Denel SOC Ltd] instances have been incurred in which bids were issued to suppliers without the entity adequately evaluating valid tax clearance certificates as is required in the National Treasury SCM Instruction No. 7 of 2017/18.*
2. *Twenty (20) cases [sixteen (16) cases relating to Denel SOC Ltd] instances have been incurred where suppliers were not selected from the National Treasury Central Supplier Database as is required in terms of the National Treasury SCM Instruction No. 4A of 2016/17.*
3. *Twenty (20) cases [seven (7) cases relating to Denel SOC Ltd] instances have been incurred where expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequate in terms of the requirements of the National Treasury SCM Instruction No. 3 of 2016/17 and the National Treasury SCM Instruction No. 1 of 2015/16.*

38 IRREGULAR EXPENDITURE (CONTINUED)

Ageing of 2017/18 irregular expenditure not condoned

	Greater than 24 months Rm	Greater than 12, but less than 24 months Rm	Less than 12 months Rm	Total Rm
Deviations from the procurement process not adequately approved	94	-	-	94
Tax clearance certificates not obtained	10	-	27	37
Evaluation criteria not adequately specified	4	-	-	4
Suppliers not registered on the central supplier database	8	-	-	8
Quotations process not initiated from the National Treasury Central Supplier Database	-	-	4	4
Inadequate deviation process followed	-	-	53	53
Irregular expenditure identified by the external auditors	-	-	313	313
	116	**-**	**397**	**513**

Disciplinary steps taken/criminal proceedings

Internal disciplinary hearings have been held for 4 (four) case instances of irregular expenditure incurred and no instances of criminal proceedings have been instituted. The rest of the cases are still being investigated to determine if any disciplinary steps/criminal proceedings are required.

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
POSSIBLE IRREGULAR EXPENDITURE						
A number of cases of possible irregular expenditure have been identified which are still under investigation by management in order to ascertain whether they are irregular expenditure and to ascertain the facts in relation to other aspects related to consequence management. The details of the instances have been placed below:						
Quotations process not initiated from the National Treasury Central Supplier Database [4]	540	-	-	540		-
Bids greater than R500 000 not adequately advertised on the eTender portal [5]	516	-	-	516		-
Sole Suppliers with inadequate assessment to support the classification	12	-	-	12		-
Deviations from competitive bidding process not adequately approved	216	-	-	216		-
Appointment of a suppliers utilising a process which is not fair and competitive	62	-	-	62	-	-
Tax clearance certificates not obtained [6]	-	22	-	-	2	-
	1 346	22	-	1 346	2	-

4 *Twenty Four thousand (24 089) cases relating to Denel SOC] instances have been incurred where suppliers were not selected from the National Treasury Central Supplier Database as is required in terms of National Treasury SCM Instruction No. 4A of 2016/2017.*

5 *Four hundred and sixty nine (469) cases relating to Denel SOC instances where expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequate in terms of the requirements of National Treasury SCM Instruction No. 3 of 2016/2017 and National Treasury SCM Instruction No. 1 of 2015/2016.*

6 *Seventeen (17) cases [six relating to Denel SOC] awarded to foreign suppliers amounting to R22m [R2m relating to Denel SOC] have been identified where SARS was not in a position to confirm the foreign suppliers' tax compliance status.*

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED

39.1 REVERSAL OF IMPAIRMENT LOSS

During the 2015/16 financial year, an internally developed intangible asset (Seeker 400) of Denel Dynamics was fully impaired at its total value of R159m. During the 2016/17 financial year, R72m of the previously impaired amount was reversed due to the re-assessed recoverability. Management later reviewed this assessment after considering current assumptions and market penetrations and it was discovered that the impairment should not have been recognised in the prior years. The net impact after taking the amortisation, and previous impairment reversal is summarised in the table hereunder.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION						
Non-current assets						
Intangible assets (refer note 11)						
Previously reported		393	335		97	36
Reversal of impairment loss (refer note 39.1)		(72)			(72)	
	111	321	335	38	25	36
CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME						
Other operating expenditure						
Previously reported		(1 483)	(1 455)		(1 254)	(1 189)
Reversal of impairment loss (refer note 39.1)		(72)			(72)	
	(1 726)	(1 555)	(1 455)	(1 548)	(1 326)	(1 189)

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

39.2 INTRA-GROUP LOANS RECEIVABLE AND PAYABLE NOT DISCLOSED SEPARATELY

Loans receivable and payable with related parties (in this case, Denel's subsidiaries) are not separately presented and disclosed in the Consolidated and separate statements of financial position but netted off against Investments in subsidiaries in prior periods (refer note 12). These loans need to be presented separately in terms of IAS 32 and not lumped with disclosure required by IFRS 12 for interest in other entities. Management undertook to separately disclose the loans receivables and payables.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION						
Non-current assets						
Investments in subsidiaries (refer note 12)						
Previously reported					1 631	1 677
Loans and receivables					(601)	(386)
Loans and borrowings					456	195
				1 580	1 486	1 486
Loans and receivables (refer note 14)						
Previously reported				-	-	-
Intragroup loans				336	601	336
Accumulated impairment				(336)	(336)	(336)
				-	265	-
Current assets						
Loans and receivables (refer note 14)						
Previously reported				-	-	-
Intragroup loans (refer note 39.2)				314	-	50
Accumulated impairment				(314)	-	-
				-	-	50
Non-current liabilities						
Loans and borrowings (refer note 24)						
Previously reported		853	1 995		690	1 973
Intragroup loans (refer note 39.2)		-	-		265	-
	12	853	1 995	298	955	1 973
Current liabilities						
Loans and borrowings (refer note 24)						
Previously reported		2 412	1 722		2 315	1 917
Intragroup loans (refer note 39.2)		-	-		191	195
	3 321	2 412	1 722	3 319	2 506	2 112

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

39.3 ADVANCE PAYMENTS MADE NOT SEPARATELY DISCLOSED

Upon review of the statement of financial position and the disclosure requirements in relation to Construction Contracts IAS 11, the prepayments from customers were not separately presented on the face of the consolidated and separate financials statement of financial position. In order to comply also with IAS 1 par 29, management took a view to present these amounts separately

39.4 CONTRACT ASSETS AND CONTRACT LIABILITIES NOT SEPARATELY DISCLOSED

Upon review of the statement of financial position and the disclosure requirements in relation to Construction Contracts IAS 11, Gross amounts due from/(to) customers were not separately presented on the face of the consolidated and separate financials statement of financial position. Management considered that whilst in the prior years these amounts were separately disclosed on the notes relating to Trade and other receivables and Trade and other payables due to the materiality of the amounts it would be prudent to present these amount separately on the face of the statement of financial position.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION						
Current assets						
Trade and other receivables (refer note 17)						
Previously reported		4 318	5 028		3 894	4 541
Advance payments made (refer note 39.3)		(455)	(557)		(451)	(527)
Gross amount due from customers (refer note 39.4)		(1 475)	(1 599)		(1 475)	(1 599)
	1 592	2 388	2 872	1 412	1 968	2 415
Contract assets (refer note 2)						
Previously reported						
Gross amount due from customers (refer note 39.4)		1 475	1 599		1 475	1 599
	1 720	1 475	1 599	1 720	1 475	1 599
Current liabilities						
Contract liabilities (refer note 2)						
Previously reported		-	-		-	-
Amounts due to customers for work invoiced not yet performed (refer note 39.4)		328	412		328	412
	298	328	412	291	328	412
Advance payments made (refer note 18)						
Previously reported		-	-		-	-
Advance payments made (refer note 39.3)		455	557		451	528
	360	455	557	327	451	528
CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME						
Other income						
Previously reported		135	288		172	428
Fair value adjustment on investment properties (refer note 39.8)		-	-		-	-
	160	135	288	398	172	428

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

39.5 CLAIM FOR LOSS INDEMNITY

Denel Aerostructures SOC Ltd has an indemnity with the South African Government, wherein should the business make a negative contribution in the manufacturing process under certain conditions those losses will be recovered. An audit by the Shareholder of the indemnity claim for the current financial year revealed an error that relates to the 2015/16 financial year claim. A formulae error resulted in an over claim of R27m. The error has been corrected by restating each of the financial statement line items for the prior periods.

39.6 REVENUE AND RELATED COST OF SALES NOT RECORDED IN PRIOR YEARS

Denel Land Systems entered into a transaction with a customer that wanted to purchase goods immediately. These guns were borrowed from the SANDF (end user) and an agreement was entered into with Armscor (procurement agent), whereby DLS would replace these guns to the SANDF at no cost. These transactions were treated incorrectly in accordance to IAS 11 (contract revenue), rather than IAS 18 (sale of goods). As a result of the incorrect treatment the sale to the customer was not taken in the period in which it was sold.

39.7 INCORRECT RECOGNITION OF LIABILITY

During prior years Denel Land Systems partook in a contractual amendment where an advance payment was furnished to Denel Land Systems in exchange for goods at contract completion date. Denel Land Systems then incorrectly recognised a creditor for the goods to be provided in future years.

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

39.7 INCORRECT RECOGNITION OF LIABILITY (CONTINUED)

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION						
Non-current liabilities						
Advance payments received (refer note 25)						
Previously reported		2 050	2 100		2 060	1 917
Providing for future losses (refer note 39.7)		(21)	(10)		(31)	10
	1 844	2 029	2 090	1 844	2 029	1 927
Current liabilities						
Trade and other payables (refer note 27)						
Previously reported		1 941	2 154		1 620	1 829
Amounts due to customers for work invoiced not yet performed (refer note 39.4)		(328)	(412)		(328)	(412)
Revenue and cost of sales not recorded in prior years (refer note 39.6)		(98)	(98)		(98)	(98)
Claim for loss indemnity (refer note 39.5)		27	27		-	-
	2 302	1 542	1 671	2 090	1 194	1 319
CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME						
Revenue						
Previously reported		8 057	8 228		6 289	6 614
Claims for indemnity loss (refer note 39.5)		-	(27)		-	-
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	221		-	221
	4 998	8 057	8 422	3 754	6 289	6 835
Cost of sales						
Previously reported		6 236	6 556		4 838	5 355
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	123		-	123
	5 119	6 236	6 679	3 903	4 838	5 478
Finance income						
Previously reported		80	77		92	63
Providing for future losses (refer note 39.7)		21	10		21	10
	67	101	87	92	113	73

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

Uncorrected prior year errors are discussed in notes 39.8, 39.9 and 39.10, 39.11. These uncorrected prior year errors had an impact on the Revenue, Cost of sales, Inventories, Trade and other receivables and Advance payments received line items in both the Consolidated and separate annual financial statements respectively.

39.8 UNCORRECTED FAIR VALUE ADJUSTMENT ON INVESTMENT PROPERTIES

Prior to 2007 Denel transferred some of the assets that were previously recognised as Property, plant and equipment to investment Properties as the intention for holding these assets was no longer to owner occupy but rather to earn rental income from the use of the property. During the same period IAS 40 par 63 requires that the fair value movements of the respective properties must be updated through the Other Comprehensive Income, previously these were recognised through the Income Statement. On conclusion of the 2017/18 financial year, management could not fully account for the fair value movements for the prior years. Management has correctly accounted for the fair value movements in 2017/18 and will account for the complete prior period error in the 2018/19 financial year.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION						
Equity						
Revaluation reserve						
Previously reported		43	43		43	43
Fair value adjustment on investment properties (refer note 39.8)		-	-		-	-
	56	43	43	56	43	43

39.9 INVESTMENT IN SUBSIDIARIES

During September 2017, Denel acquired 100% ownership of Turbomeca Africa. The treatment of this acquisition did not comply with the requirements of IFRS 3 paragraph 18 amd 32.

39.10 UNCORRECTED REVENUE RECOGNITION

Upon review of prior years' revenue recognition the following errors were identified but not adjusted for:

- Denel Dynamics and LMT Holdings SOC Ltd (RF) – In recognising revenue, whilst Construction Contracts IAS 11 was correctly applied, there were material errors identified in relation to the recognition of penalties and the translation of foreign revenue. At the conclusion of 2017/18, management could not correctly quantify the full impact on the prior years and will disclose the full impact in 2018/19.
- Denel Vehicle Systems (Pty) Ltd and Denel Aerostructures SOC Ltd – A misinterpretation of the IFRS standards resulted in the application of an incorrect standard on the recognition of revenue recognition. Instead of applying Construction Contracts IAS 11, Revenue Recognition IAS 18 was applied. At the conclusion of the 2017/18 financial year could not quantify the full impact on the prior year periods.

39.11 UNCORRECTED PROVISION FOR SITE RESTORATION

The provision for site restoration had been erroneously posted to the Statement of Comprehensive Income instead of being capitalised to the cost of the assets. At the time of finalising the AFS management could not quantify the impact on the prior years. The full impact will be reported in 2018/19.

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (CONTINUED)

39.12 DENEL MEDICAL BENEFIT FUND

Denel offered a post-employment medical subsidy to employees who were employed before 1 April 2000 and were members of its medical scheme. This liability was funded by Denel and the assets are housed in the Denel Medical Benefit Trust. At year end the fund was over funded and Denel has not made any further contributions during the year. This benefit has not been recorded in Denel's accounts.

39.13 EFFECT OF THE CORRECTED PRIOR YEAR ERRORS ON THE CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

The corrected prior period accounting errors had the following impact on the Accumulated loss line item presented in the Consolidated and separate annual financial statements:

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
Balance at 1 April (reported previously)	(3 572)	(3 917)	(4 295)	(4 230)	(4 332)	(4 604)
Adjustment to prior years	30	81	-	57	108	-
Balance at 1 April (restated)	(3 542)	(3 836)	(4 295)	(4 173)	(4 224)	(4 604)
Profit for the year (reported previously)	(1 662)	345	378	(1 587)	102	272
Reversal of impairment loss (refer note 39.1)		(72)	-		(72)	-
Claims for indemnity loss (refer note 39.5)		-	(27)		-	-
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	221	-	-	221
Revenue and cost of sales not recorded in prior years (refer note 39.6)		-	(123)		-	(123)
Incorrect recognition of liability (refer note 39.7)		21	10	-	21	10
	(5 204)	(3 542)	(3 836)	(5 760)	(4 173)	(4 224)

NOTES TO CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

40 GOING CONCERN

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

- Reviewed the performance of the group for the year ended 31 March 2018 with a Net loss of R1,75bn, (Net profit 2016/17:R282m, 2015/16 R476m) and projected losses in 2018/19;
- Noted the rating downgrade by Fitch to still investment grade, however with a negative outlook. The board considered the impact this may have in accessing future funding;
- Reviewed the cash flow forecast for the period twelve months ending 31 October 2019. The forecast included assumptions that an additional R1.4bn inflow of cash will be raised through a combination debts against the government guarantees, the selling of non-core assets and introduction of strategic partnerships;
- Considered the commercial viability of the business including the major contract included in the order book (R18bn) and pipeline (R40bn);
- Noted that Denel was able to raise R2.8bn in the investor market in September 2018 and is confident that it will be able to raise the remaining R566m against the government guarantees;
- Noted the continued support of its Shareholder as a going concern and received extended government guarantees for a period of five years until September 2023;
- Considered that there exists positive sentiments towards Denel and continued, expressed interest in Denel products, capabilities and IP;
- Considered the existing strategic relationship between the DoD and Denel. This has been demonstrated by the continued base load work received on critical capabilities; and
- Noted the investor sentiments towards Denel having improved governance subsequent to the changes of the board.

The board has implemented the following strategies in order to mitigate the risks on going concern:

- Approved the implementation of the turnaround strategy dealing with reducing the cost structure to acceptable levels that would sustain Denel to the future, improving programme delivery to clients, the selling of non-core assets and the generations of bankable cash profits;
- Positive engagements with three major banks (forming a lending consortium) in order to provide additional access to funding. The discussions are at an advanced stage and the board is confident of its outcome; and
- Implemented measures to improve the governance structure within Denel.

Based on the above factors, whilst there are material uncertainties regarding the going concern due to liquidity concerns, the directors are satisfied that given the mitigating steps taken by the board, Denel will continue operating as a going concern for the 12 month period to 31 October 2019. The group annual financial statements were therefore prepared on this basis.

41 SUBSEQUENT EVENTS

On 4 September 2018, an explosion occurred at Rheinmetall Denel Munitions (Pty) Ltd site in Somerset West, near Cape Town that has resulted in a fire. Denel SOC is a 49% strategic partner to Rheinmetall Wafee Munition GmbH, a company of German origin. The two companies are run independently of each other with different boards and management structures. We have not test received the information regarding what the full impact will be, however we anticipate there may be reductions in profits declared by Rheinmetall Denel Munitions (Pty) Ltd in the 2018/19 financial year.

INFORMATION SERVICE

PART EIGHT

INFORMATION SERVICE

GRI CONTENT INDEX

We have provided some GRI disclosures in the 2016/17 integrated report. The disclosures provided are set out in the table below, with a reference to where in the document the information may be found.

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-makers of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Group chief executive officer's report	50
G4-2	Description of key impacts, risks, and opportunities, including rights as defined by national laws and relevant internationally recognized standards	Material Risks	42
ORGANISATIONAL PROFILE			
G4-3	Report the name of the organisational	About this report	Inside cover
G4-4	Report the primary brands, products, and services.	Who we are	08
G4-5	Report the location of the organisation's headquarters	Corporate contact details	228
G4-6	Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Organisational Structure	21
G4-7	Report the nature of ownership and legal form	Organisational Structure	21
G4-9	Report the scale of the organisation (including total number of employees, operations, net sales)	Human Capital, Organisational Structure and Financial performance.	06 21 102
G4-10	Report the total number of employees by employment contract and gender and the total number of permanent employees by employment type and gender.	Human Capital Human Capital Statistics	26 224
G4-11	Report the percentage of total employees covered by collective bargaining agreements	Human Capital	26
G4-12	Describe the organisation's supply chain	Social Capital	40
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain including expansions	Group chief executive officer's report	60
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	We do not currently apply the precautionary approach	-
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List all entities included in the organisation's consolidated financial statements	Organisational Structure and Note 37 of the consolidated annual financial statements	21 201
G4-18	Explain the process for defining the report content and the Aspect Boundaries and how the organisation has implemented the Reporting Principles for Defining Report Content.	About this report	Inside cover
G4-20	For each material Aspect, report the Aspect Boundary within the organisation	Material Risks	40 to 42
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation	Material Risks	40 to 42
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	Consolidated financial statements	207
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	Not applicable	

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
STAKEHOLDER ENGAGEMENTS			
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholder engagements	36 to 39
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	Stakeholder engagements	36 to 39
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Stakeholder engagements	36 to 39
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	Stakeholder engagements	36 to 39
REPORT PROFILE			
G4-28	Reporting period for information provided	About this report	Inside cover
G4-29	Date of most recent previous report.	31 March 2017	
G4-30	Reporting cycle	We report annually	
G4-31	Provide the contact point for questions regarding the report or its contents.	Corporate contacts details	228
G4-32	Report the 'in accordance' option the organisation has chosen, the GRI Content Index for the chosen option and the reference to the External Assurance Report, if the report has been externally assured.	Not applicable. This report contains some GRI disclosure.	
G4-33	Report the organisation's policy and current practice with regard to seeking external assurance for the report, report the scope and basis of any external assurance provided, the relationship between the organisation and the assurance providers and whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	About this report and Audit committee report	Inside cover 84 to 85
GOVERNANCE			
G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	Governance framework	68 to 77
G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	Governance framework	68 to 77
G4-36	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	Governance framework	68 to 77

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	Governance framework	68 to 77
G4-38	Report the composition of the highest governance body and its committees including executive and non-executive directors, independence, tenure, number of each individual's other significant positions and commitments, the nature of the commitments and gender.	Governance framework	68 to 77
G4-39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement).	The Chair is a non-executive director. Denel Board of Directors	68 to 77
G4-40	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members (including diversity, independence, expertise and experience relating to economic, environmental and social topics)	Governance framework	68 to 77
G4-41	Report processes for the highest governance body to ensure that conflicts of interest are avoided and managed and whether conflicts of interest are disclosed to stakeholders (including cross board membership and related party disclosure)	Governance framework, Note 32 Related Parties	68 to 77 161 to 166
G4-42	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	Governance framework	68 to 77
G4-43	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	Governance framework	68 to 77
G4-44	Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics and whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment	Governance framework	68 to 77
G4-45	Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes	Governance framework	68 to 77
G4-46	Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.	Governance framework	68 to 77
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Material risks	40 to 42
G4-48	Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	Not applicable	-
G4-49	Report the process for communicating critical concerns to the highest governance body.	Material Risks	40 to 42

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/COMMENT	PAGE
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	Material Risks	40 to 42
G4-51	Report the remuneration policies for the highest governance body and senior executives (including performance pay, equity based pay, bonuses, deferred or vested shares, sign on bonuses, termination payments and clawbacks)	Remuneration report	78 to 80
G4-52	Report the process for determining remuneration.	Remuneration report	78 to 80
ETHICS AND INTEGRITY			
G4-56	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Governance framework	68 to 77
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines	Our vision, strategic drivers and values, Governance framework	06 47 76
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	Our vision, strategic drivers and values, Governance framework	06 47 76

ENVIRONMENTAL STATISTICS

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

ENERGY CONSUMPTION

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
	kWh	kg	kg	litres	litres	litres	litres	litres
Kempton Park	26 567 460	148 093	-	376 762	174 746	25 160	73 651	-
PMP	20 242 808	40 059	1 429 420	-	-	37 727	54 473	-
Irene	19 099 741	-	-	-	200	34 313	10 008	-
Lyttelton	9 382 985	-	-	-	-	27 922	36 728	-
DVS	8 785 386	46 000	-	-	-	43 127	62 513	-
OTR	5 520 669	-	-	-	-	116 457	75 110	-
LMT	394 723	-	-	-	-	-	8 346	-
Houwteq	2 422 703	-	-	-	-	-	-	-
Total	**92 416 475**	**234 152**	**1429420**	**376 762**	**174 946**	**284706**	**320 830**	**0**

Carbon sources reflected in tonnes CO_2 equivalent emissions on the various campuses are tabulated below:

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
Kempton Park	26 567	436	-	1 194	444	58	197	-
PMP	20 243	118	3 484	-	-	87	146	-
Irene	19 100	-	-	-	1	79	27	-
Lyttelton	9 383	-	-	-	-	64	98	-
DVS	8 785	135	-	-	-	99	167	-
OTR	5 521	-		-	-	268	201	-
LMT	395	-	-	-	-	-	22	-
Houwteq	2 423	-	-	-	-	-	-	-
Total	**92416**	**689**	**3 484**	**1 194**	**444**	**655**	**857**	**0**

Scope 1 and 2 emissions based on DEFRA CO_2 equivalent emissions

Water consumption (kl) per campus are tabulated below:

WATER CONSUMPTION

CAMPUS	KEMPTON PARK	IRENE	LYTTELTON	LMT	OTR	PMP	DVS	TOTALS
Quantities in Kilo litres	280 449	453 806	16 521	3600	108 114	285 774	18 066	1 166 330

Details of hazardous and general waste disposed and recycled are indicated below:

WATER CONSUMPTION

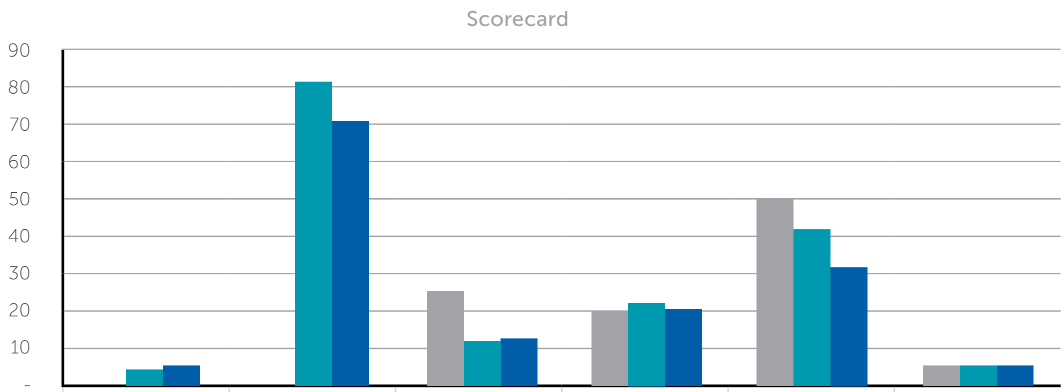
WASTE TYPE	DISPOSAL METHOD	DAs	DD	DLS	DVS	LMT	OTR	PMP	PROP	TOTAL
Non-Hazardous (General)	Disposed off	108	39	1 562	74	0.48	19.6	44.2	252	692.98
Non-Hazardous (General)	Recycled	139	34.6	6.55	91.57	-	-	170.49	36	477.71
Liquid Hazardous	Recycled	2 847.6	-	1.2	13	-	-	21.63	-	2 883.43
Liquid Hazardous	Disposed off	720	5.6	25.16	-	2	-	0	633	1 385.76
Solid Hazardous	Disposed off	34.71	-	1.57	154.24	-	1.6	38.65	4	234.77
Solid Hazardous	Recycled	-	-	-	-	0.5	-	409.37	-	409.87

HUMAN CAPITAL STATISTICS

WORKFORCE PROFILE

WORKFORCE	2017/2018		2016/2017		2015/2016	
	Black	White	Black	White	Black	White
Executive management	8	4	8	4	8	4
Senior management	22	23	25	25	28	28
Management	117	206	119	195	116	228
Professional Staff	1783	1180	1928	1318	1885	1451
Administrative Staff	270	170	266	169	294	193
Support Staff	146	112	195	110	194	107
Trainees	154	6	204	13	193	25
General workers	363	65	307	55	303	57
	2863	**1766**	**3052**	**1889**	**3021**	**2093**
Total		**4629**		**4941**		**5114**

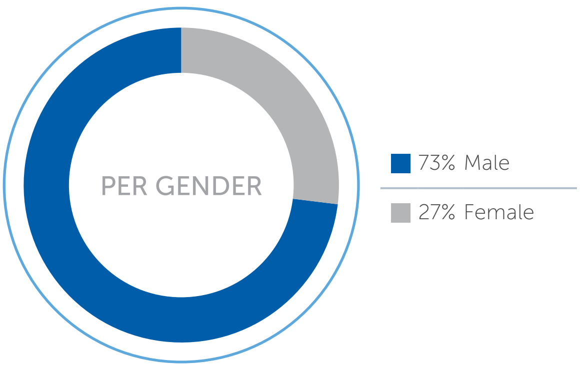
DENEL SOC LTD B-BBEE SCORE CARD

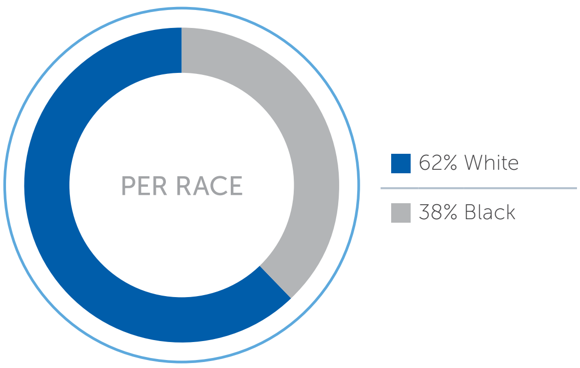


	Level	Total	Management Control	Skills Development	Enterprise and Supplier Development	Socio Economic Development
Weighting			25	20	50	5
2016/17	4	82.84	12.92	22	42.92	5
2017/18	6	71.46	13.04	20.50	32.92	5

BEE CATEGORY

BEE Category	Element	Weighting	2016/2017 Score	2018 Score
HR DEVELOPMENT	**1. MANAGEMENT CONTROL**	**20.00**	**12.92**	**13.04**
	1.1 Board Participation	6.00	5.00	5.00
	1.2 Other Executive Management	3.00	2.48	2.50
	1.3 Senior Management	3.00	2.02	2.07
	1.4 Middle Management	3.00	0.88	0.84
	1.5 Junior Management	3.00	1.67	1.67
	1.6 Employees with Disabilities	2.00	0.89	0.95
INDIRECT EMPOWERMENT	**2. SKILLS DEVELOPMENT**	**25.00**	**22.01**	**20.50**
	2.1 SD Expenditure	13.00	7.34	4.98
	2.2 Learnership, Apprenticeship & Internships	12.00	11.45	11.59
	2.3 Absorbed	5.00	3.21	3.93
	3. ENTERPRISE AND SUPPLIER DEVELOPMENT	**50.00**	**42.92**	**32.92**
	3.1 Preferential Procurement	30.00	20.34	16.63
	3.1.2 Spend from DGS	2.00	0.58	0.94
	3.2 Supplier Development	15.00	15.00	10.67
	3.3 Enterprise Development	5.00	5.00	4.68
	3.4 Graduation & Job Creation	2.00	2.00	0.00
	4. SOCIO-ECONOMIC DEVELOPMENT	**5.00**	**5.00**	**5.00**
	4.1 Contributions	5	5	5
	TOTAL SCORE	**100.00**	**82.84**	**71.46**





GLOSSARY

ACRONYM	FULL DESCRIPTION
(Pty) Ltd	(Proprietary) Limited
AAD	Africa Aerospace and Defence Exhibition
ACI	African, Coloured and Indian
ACSA	Airports Company South Africa
AGM	Annual general meeting
Airbus	Airbus DS Optronics (Pty) Ltd
AISI	Aerospace Industry Support Initiative
AMD	South African Aerospace, Maritime and Defence Industries Association
AMO	Aircraft Maintenance Organisation
APC	Armoured personnel carriers
ARMSCOR	Armaments Corporation of South Africa
AS	Aerospace Standard
ATWG	Anti-tank guided weapon
B-BBEE	Broad-based black economic empowerment
BI	Black Industrialist
Board	Denel board of directors
BRICS	Brazil, Russia, India, China and South Africa
BVR	Beyond visual range
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CAE	Chier audit executive
CAR	Capital Adequacy Requirement
CCM	Continuous control monitoring
CEO	Chief executive officer
CFC	Controlled foreign currency
CFO	Chief financial officer
CGVR	Central guide vertical restraint
CHF	Swiss Franc
CIL	Centre of Innovation and Learning
Companies Act	South African Companies Act, no. 71 of 2008
COSO	Committee of Sponsoring Organisations of the Treadway Commission
C-RAM	Counter-rocket, artillery and mortar system
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
CVO	Contract variation order
DAe	Denel Aerostructures SOC Ltd
DAv	Denel Aviation
DCAC	Directorate of Conventional Arms Control
DD	Denel Dynamics
Dekra	German Motor Vehicle Inspections Association
Denel Asia	Denel Asia LLC
Denel ISM	Denel Integrated Systems and Maritime
Denel OTR	Denel Overberg Test Range
Denel S3	Denel Sovereign Security Solutions
Deniprop	Denel Industrial Properties
DenRet	Denel retirement fund
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems

ACRONYM	FULL DESCRIPTION
DMBT	Denel Medical Benefit Trust
DMG	Denel machine gun
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DoD&MV	Department of Defence and Military Veterans
DPE	Department of Public Enterprises
DPS	Damage per second
DRC	Democratic Republic of the Congo
DTA	Denel Technical Academy
DTC3	Denel Technical Cyber Command Centre
dti	Department of Trade and Industry
DVS	Denel Vehicle Systems (Pty) Ltd
EASA	European Aviation Safety Agency
EBIT	Earnings before interest and taxation
EC	Eurocopter
ED	Enterprise development
EE	Employment equity
Entity/(ies)	Denel's operating divisions or subsidiary
ERW	Explosive remnants of war
ESD	Enterprise supplier development
EUR	Euro
EXCO	Group executive committee of Denel
FIFO	First-in-first-out
G5	A towed howitzer of 155 mm calibre
G6	A 155mm self-propelled howitzer
GBADS	Ground-based air defence system
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GDP	Gross domestic product
GHG	Greenhouse gas
government	South African government, unless otherwise stated
GRI	Global Reporting Initiative
ha	hectare
Hensoldt	Hensoldt Optronics (Pty) Ltd, previously known as Airbus DS Optronics (Pty) Ltd (Airbus)
HR	Human resources
HVAC	heating, ventilation and air-conditioning
IAS	International accounting standards
IBSA	India, Brazil and South Africa
ICT	Information communication technology
ICV	Infantary combat vehicle
IED	Improvised explosive device
IESBA	International Ethics Standards Board for Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGG	International Golden Group (GG) PJSC
IIR	Imaging Infrared

ACRONYM	FULL DESCRIPTION
IIRC Framework	International Integrated Reporting Council Framework
IP	Intellectual property
IPAP	Industrial Policy Action Plan
IR Framework	Integrated Reporting Framework
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information technology
JARIC	Joint Air Reconnaissance Intelligence
JSE	Johannesburg stock exchange
KG	Kilogram
King III	King Code of Governance Principles and the King Report on Governance in South Africa 2009
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016
KL	Kilolitre
kWh	Kilowatt-hour
L	litres
LCT	Light combat turren
LED	Light Emitting Diode
LEO	Law enforcement officers
LLC	LLC Limited liability company
LMT	LMT Holdings SOC Ltd (RF)
m3	cubic metre
MEDDS	Mechem explosives and drug detection system
MMP	Mobile Mortar Platform
MoD	Ministry of Defence
MOI	Memorandum of Incorporation
MPV	Mine-protected vehicles
MRAP	Mine-resistant ambush protected
MRO	Maintenance, repair and overhaul
NCPF	National Cybersecurity Policy Framework
NEMA	National Electrical Manufacturers Association
NIMR	NIMR Automotive LLC
NT	National Treasury
OCI	Other comprehensive income
OEM	Original equipment manufacturer
OHS	Occupational health and safety
OHSAS	Occupational Health Safety Assessment Series
PAA	Public Audit Act, no. 25 of 2004
PAW	Personal Assault Weapon
PFMA	Public Finance Management Act, no. 1 of 1999
PLCM	Product lifecycle management
PLS	Pioneer Land Systems LLC
PMP	Pretoria Metal Pressings
PPPFA	Preferenctial Procurement Policy Framework Act
PR&T	Personnel, remuneration and transformation
PWD	People with disability
R&D	Research and development
R/Rand/ZAR	South African Rand
RAF	Road Accident Fund
RDM	Rheinmetall Denel Munition (Pty) Ltd

ACRONYM	FULL DESCRIPTION
RF	Ring-fenced
RG-vehicle	Family of mine-resistant 4x4 light armoured vehicles
Rm	South African Rand million
RSA	Republic of South Africa
RSS	Ribs, spars and sword
RTD	Retired
S&E committee	Social and Ethics committee
SA	South Africa(n)
SA government	South African Government
SAAF	South African Air Force
SABS	South African Bureau of Standards
SACAA	South African Civil Aviation Authority
SANAS	South African National Accreditation System
SANDF	South African National Defence Force
SANParks	South African National Parks
SANSA	South African National Space Agency
SAPS	South African Police Services
SARA	Small African Regional Aircraft
SARS	South African Revenue Services
SCM	Supply chain management
SDROW	Self-defence remotely-operated weapon
SEAFAR	Deep sea monitoring system
SED	Socio-economic development
SETA	Sector Education and Training Authority
SGD	Singapore Dollar
Shareholder	South African government
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
SOP	Schools Outreach Programme
SS77	762x51mm machine gun
STEM	Science, Technology, Engineering and Mathematics
t	tons
TD	Tawazun Dynamics LLC
TGP	Total guaranteed package
TMA	Turbomeca Africa (Pty) Ltd
TS	Top shells
UAE	United Arab Emirates
UAV	Unmanned aerial vehicle
UAVS	Unmanned aerial vehicle systems
UN	United Nations
URS	User requirement specification
US	United States
USA	United States of America
USD	United States Dollar
VAT	Value added tax
WFF	Wing-to-fuselage fairing

CORPORATE CONTACT DETAILS

DENEL SOC LTD

Registration number 1992/001337/30

The registered office of Denel SOC Ltd is situated at:

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

CONTACT DETAILS:

Head office	
Telephone	+27 12 671 2700
Fax	+27 12 671 2793
Website	www.denel.co.za
Marketing	**Mxolisi Makhatini**
Telephone	+27 12 671 2758
Fax	+27 12 675 2751
Email	marketing@denel.co.za
Corporate communication	**Vuyelwa Qinga**
Telephone	+27 12 671 2662
Fax	+27 12 675 2751
Email	vuyelwaq@denel.co.za
Finance	**Thandeka Sabela**
Telephone	+27 12 671 1313
Fax	+27 12 675 2751
Email	thandekas@denel.co.za
Fraud hotline	**+27 800 20 48 80**

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Designed and produced by:
Msomi Africa Communication (Pty) Ltd
Tel +27 12 347 7530
www.msomiafrica.com

www.denel.co.za

RP443/2018
ISBN: 978-0-621-46968-4