CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

as at 31 March 2018

		GROUP			COMPANY		
			Restated			Restated	
		2017/18	2016/17	2015/16	**2017/18**	2016/17	2015/16
	Notes	Rm	Rm	Rm	Rm	Rm	Rm
ASSETS							
Non-current assets [1]		**3 111**	3 214	3 113	**3 458**	3 362	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	**1 113**	995	840	**451**	500	500
Loans and receivables	14	**-**	-	-	**-**	-	-
Deferred tax assets	15	**20**	36	48	**-**	-	-
Current assets		**7 979**	9 177	9 733	**6 902**	7 629	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	**-**	-	-	**-**	265	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
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**	3 278	4 469	**2 452**	3 301	4 630
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**	6 432	6 131	**7 436**	5 644	5 335
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.

CONSOLIDATED AND SEPARATE INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

		GROUP			COMPANY		
			Restated			Restated	
		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**	**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 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 the 2016/17 Integrated Report.

[3] Amounts reported on as per the published 2016/17 Integrated Reports 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

for the year ended 31 March 2018

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	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**	8 883	6 886	**4 267**	7 204	5 490
Payments to suppliers and employees	**(5 979)**	(8 312)	(7 254)	**(4 860)**	(6 598)	(5 986)
Cash from/(utilised in) operations	**(271)**	571	(581)	**(593)**	606	(496)
Increase in advance payments received	**(260)**	70	33	**(46)**	124	(107)
Interest paid	**(351)**	(338)	(231)	**(369)**	(345)	(240)
Interest received	**65**	100	87	**89**	112	75
Dividends received	**108**	-	25	**108**	-	56
Income tax paid	**(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	**-**	156	-	**-**	156	-
Purchases of intangible assets	**(18)**	(2)	(10)	**(16)**	(1)	(10)
Acquisition of subsidiary	**(45)**	-	(828)	**(45)**	-	(828)
Loans and receivables	**-**			**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	**1 269**	**2 021**	**2 003**	**1 061**	**1 556**	**1 788**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE 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.

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

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.

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 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 1.2.

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):

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 making making j taking into account the technical and industrial uncertainties attached to the programme.

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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.

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

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 in the future.

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

»» Labour hours are estimated based on a review of the outstanding functionalities and the experience of the project managers in conducting similar processes, as well as their understanding of the requirements. In cases where the process requires new and unique work, anticipated hours are used;

»» The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content;
»» Manufacturing overheads are allocated pro rata according to IAS 11 Construction Contracts. Indirect costs are not specifically allocated to a product or an activity;
»» Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases;
»» Inflation and rates of exchange adjustments are made based on information supplied by reputable banks;
»» Technical obsolescence on aircraft 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
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

Countertrade

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

.

Estimates used in calculating these obligations are as follows:
»» Obligations for countertrade vary between 60% and 100% of export revenue;

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

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 REVENUE RECOGNITION

Contract revenue

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.

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
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
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

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

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.

Rendering of services

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

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

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 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.

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

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.

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

currency.

Recording of foreign transactions

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

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

1.4.7 PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation

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

»» Buildings 20 to 50 years;

»» Plant and machinery and equipment 3 to 60 years;

»» Vehicles 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

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

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,

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

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

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

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

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
»» Is not larger than a segment based on the group's reporting format determined in accordance with IFRS 8 Segment reporting.

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.

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

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.

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 33.1).

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

to changes in the fair value of a recognised non-financial asset or non-financial liability or an unrecognised firm commitment.

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

1.4.17 NON-CURRENT ASSETS HELD FOR SALE

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.	01-Jan-18
IFRS 15	Revenue from contracts from customers – Provides a single, principle based five-step model to be applied to all contracts with customers.	01-Jan-18
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.	01-Jan-19
IFRS 3	Business combinations – Clarification that when an entity obtains control of a business that is a joint operation, it is required to re measure previously held interest in that business.	01-Jan-19
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.	01-Jan-18
IAS 40 Investment Property	Transfers of Investment Property: Clarification of the requirements on transfers to, or from, investment property.	01-Jan-18

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

IFRS 16, Leases

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.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2018

		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
Adjustment [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 (restated)				-	294	294	(12)	282
Profit/(loss) for the year (reported previously)					345	345	(12)	333
Adjustment [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.

	Notes	Issued capital 1 Rm	Share premium 2 Rm	Revaluation reserve 3 Rm	Accumulated loss Rm	Total equity Rm
COMPANY						
Balance at 1 April		**1 225**	**4 951**	**43**	**(4 604)**	**1 615**
Preference dividends payable						-
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**
Preference dividends payable						-
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**
Preference dividends payable						-
Total comprehensive loss				13	(1 587)	(1 574)
Loss for the year				**-**	**(1 587)**	**(1 587)**
Other comprehensive income	39			**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.

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
2 REVENUE 1						
Contract revenue [1 and 2]	4 865	7 935	8 314	3 610	6 156	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	352	314	259	301	183	167
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 becomeun conditional. 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		
			Restated			Restated	
		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		-	13	14	10	10	11
	Current year	-	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)		129	142	131	92	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	80	80	77	51	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 xxx to xxx. Executive directors' remuneration is included from date of appointment as director.

	GROUP			COMPANY		
		Restated			Restated	
	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)[2]	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[3]	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[4]	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 xxx to xxx. Executive directors' remuneration is included from date of appointment as director.

2 No lease incentives were received during 2017/18 (2016/17: 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 (refer note 29)	-	-	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.

		GROUP			COMPANY		
			Restated			Restated	
		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 4**						
	Gross interest received[1]	63	100	87	52	91	72
	Previously reported		80	77		92	63
	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)	(28)	(24)	(19)	(28)	(24)	(19)
	Movement in interest accrued for the year	(20)	(11)	(31)	(20)	(11)	(31)
	Discount (premium) on borrowings	40	21	1	40	21	1
	As per the consolidated and separate statements of cash flows	351	338	231	369	345	240
	Interest received						
	Finance income (refer note 6.2)	67	101	87	92	113	73
	Add back:						
	Unwinding of discount on provisions (refer note 26.3)	(4)	(1)	-	(4)	(1)	-
	Movement in interest receivablefor the year	2	-	-	1	-	2
	As per the consolidated and separate statements of cash flows	65	100	87	89	112	75

7 INCOME TAX EXPENSE

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
SA normal tax [1]						
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.

8 ACQUISITION AND ESTABLISHING OF SUBSIDIARIES

The fair value of the identifiable assets and liabilities of Turbomeca Africa (Pty) Ltd (refer note 8.1) and Denel Vehicle Systems (Pty) Ltd (refer note 8.2) as at date of acquisition were respectively:

	GROUP	
	2017/18	2015/16
	Turbomeca Africa (Pty) Ltd	Denel Vehicle Systems (Pty) Ltd
	Rm	Rm
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	-	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.

8.1 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 neccessitated 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 commerically 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 R17m 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.

	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	1 120
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**
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 business units of the group. Assets under construction were financed by funds available within the group.

At 31 March 2018, the group and company had not assessd the uselful 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.

	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		
		Restated			Restated	
	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.

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 world 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.

		GROUP			COMPANY		
			Restated			Restated	
		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 Holding 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		
		Restated			Restated	
	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**

	COMPANY		
		Restated	
	2017/18	2016/17	2015/16
	Rm	Rm	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			
Balance at 1 April	1 055	1 055	1 055
Impairment for the year	-	-	-
	1 055	**1 055**	**1 055**

	Denel SOC Ltd								
	2017/18			2016/17			2015/16		
	Effective shareholding	Share investment by Denel SOC Ltd	Impairment	Effective shareholding	Share investment by Denel SOC Ltd	Impairment	Effective shareholding	Share investment by Denel SOC Ltd	Impairment
Subsidiary companies	%	Rm	Rm	%	Rm	Rm	%	Rm	Rm
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							
		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.

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 abovementioned information was used in management's judgement that Denel did not exercise control over these companies and therefor, 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) 5	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	149	128	103	56	56	56
Rheinmetall Denel Munition (Pty) Ltd	879	735	608	372	372	372
Pioneer Land Systems LLC	-	-	-			
Tawazun Dynamics LLC	85	45	-	23	23	23
Turbomeca Africa (Pty) Ltd 3		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 income statements and statements of comprehensive income, page XXX.

	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

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 companies' 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.

	GROUP			COMPANY		
		Restated			Restated	
	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 A&R 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 30.1). 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.

14.3 LMT Holdings SOC Ltd (RF)

Denel entered into a loan transaction with its subsidiary LMT Holdings SOC (RF) wherein Denel agreed to provide certain amounts of money as a loan that was due and payable on 1 November 2018. 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		
		Restated			Restated	
	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	(1)	12	-	-	-
Income statement (refer note 7)	(16)	36	(13)	-	-	-
	19	**35**	**(1)**	**-**	**-**	**-**
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.

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	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		
		Restated			Restated	
	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.

		GROUP			COMPANY		
			Restated			Restated	
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
		Rm	Rm	Rm	Rm	Rm	Rm
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.						
19	**OTHER FINANCIAL ASSETS AND LIABILITIES**						
19.1	**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**						
	Derivatives	89	102	73		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**

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
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. 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.

[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

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
22.1 AUTHORISED CAPITAL						
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						
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						
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	2016/17	2015/16
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.

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	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	-
Secured 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
Secured 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)	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	730
Total interest bearing loans and borrowings	**3 333**	**3 265**	**3 717**	**3 617**	**3 461**	**4 085**

24.1 FINANCE LEASE

Finance lease liabilities are payable as follows:

	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	Rm
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 finanical 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		
			Restated	
		2017/18	2016/17	2015/16
		Rm	Rm	Rm
24 LOANS AND BORROWINGS (continued)				
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 A&R 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 30.1). 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.

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%. The loan is secured against the 100% shareholding of Denel SOC Ltd in Denel Vehicle Systems (Pty) Ltd. Refer note 12.

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. Repayment of loan on 24 June 2017. The interest is linked to JIBAR + 1.5%.

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 LOANS AND BORROWINGS (continued)

24.6 UNSECURED BONDS(continued)

The borrowings have been raised through the issuance of bonds totalling R0.69bn (2016/17: R1.6bn, 2015/16: R1.4bn). The bonds that matured were replaced by commercial paper. The unsecured bonds where issued at JIBAR+2.8%. Of the total borrowings, R2.34bn (2016/17: R1.85bn, 2015/16: R1.85bn) is backed by government guarantees.

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 registred for R4bn (2016/17: R3bn). R2.4bn (2016/17: R1.85bn) of the notes are secured by a government guarantee.

The undrawn borrowing facilities available for future operating activities amount to R0 (2016/17: R134m, 2015/16: R275m) and US$0 (2016/17: US$50m, 2015/16: US$50m). Refer note 33 for fair value.

	GROUP			COMPANY		
		Restated			Restated	
	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)	9.25	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**

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
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 28.1	**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.

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
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	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 povision for 2016/17: Rnil (2015/16: Rnil)

	Contract risks and onerous contracts	Performance guarantees	Product warranty and recall	Site restoration	Counter trade	Insurance	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
26 PROVISIONS (continued)								
26.3 RECONCILIATION								
GROUP								
2017/18								
Balance at 1 April	57	30	261	219	84	11	144	806
Business acquired	-	-	-	-	-	-	-	-
Charged to the income statement	-	-	-	-	-	-	-	-
Realised	51	(29)	(38)	24	2	8	(144)	(126)
Unused amounts reversed	-	-	-	-	-	-	-	-
Unwinding of discount on provisions (refer note 6.1, 6.2 and 6.3)	-	-	-	(1)	-	-	1	-
	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**

	Contract risks and onerous contracts	Performance guarantees	Product warranty and recall	Site restoration	Counter trade	Insurance	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
26 PROVISIONS (continued)								
26.3 RECONCILIATION (continued)								
COMPANY								
2017/18								
Balance at 1 April	46	30	177	219	20	-	102	594
Charged to the income statement	-	-	-	-	-	-	-	-
Realised	54	(29)	(28)	24	11	-	(104)	(72)
Unused amounts reversed	-	-	-	-	-	-	-	-
Unwinding of discount on provisions (refer note , and 6.2)	-	-	-	(1)	-	-	1	-
	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 excalated 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 compny 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.

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.

26 PROVISIONS (continued)

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		
		Restated			Restated	
	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.

28 CONTINGENT LIABILITIES [1]

28.1 GUARANTEES

	GROUP 2017/18 Rm	GROUP 2016/17 Rm	GROUP 2015/16 Rm	COMPANY 2017/18 Rm	COMPANY 2016/17 Rm	COMPANY 2015/16 Rm
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
Recognised in the consolidated annual financial statements	(3 298)	(3 643)	(2 145)	(3 214)	(3 537)	(2 145)
Advance payments received	(2 964)	(3 295)	(2 082)	(2 964)	(3 284)	(2 082)
Provision for performance guarantees (refer note 26)	(1)	(30)	(55)	(1)	(30)	(55)
Other provisions	(333)	(318)	(8)	(249)	(223)	(8)
	(2 087)	**(2 256)**	**(207)**	**(2 180)**	**(2 384)**	**(207)**

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.

28 CONTINGENT LIABILITIES 1 (continued)

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: Rxxxbn (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: Rxxx (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 Rxxx (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 below 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**
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**

		GROUP			COMPANY		
			Restated			Restated	
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
		Rm	Rm	Rm	Rm	Rm	Rm
29	**NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**						
29.1	**RECONCILIATION OF PROFIT WITH CASH RETAINED FROM OPERATIONS**						
	Net profit before tax	(1 753)	305	515	(1 584)	51	380
	Adjusted for:	539	59	278	210	216	211
	Loss on disposal of property, plant and equipment[1]	-	-	-	-	-	-
	Depreciation[2]	129	142	131	92	103	100
	Amortisation of intangible assets[2]	9	11	16	3	7	12
	Remeasurement of derivatives	367	(199)	48	191	(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[2]	237	-	163	-	-	159
	Impairment in subsidiaries (refer note 11)[2]	-	-	-	-	-	-
	Share of profit of associated companies (refer note 12)	(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	(1 214)	364	793	(1 374)	267	591
	Changes in net current assets	943	207	(1 374)	781	339	(1 087)
	Increase in inventories	(224)	(282)	(712)	(437)	(88)	(403)
	Decrease/(Increase) in trade and other receivables	532	712	(1 510)	761	648	(1 406)
	(Decrease)/Increase in trade and other payables	635	(223)	848	457	(221)	722
	Cash utilised in operations	**(271)**	**571**	**(581)**	**(593)**	**606**	**(496)**

[1] Refer note 3 and 4.
[2] Refer note 3.

	GROUP			COMPANY		
		Restated			Restated	
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
30 CAPITAL COMMITMENTS						
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**

	Buildings	Computer equipment	Ofice furniture	Plant and machinery	Vehicles	Total
	Rm	Rm	Rm	Rm	Rm	Rm

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:

	Buildings Rm	Computer equipment Rm	Ofice furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
GROUP						
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**
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 commettees 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 xxx to xxx.

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.

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	-	-	-	-
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	-	-	-	-	-	-	-

32 RELATED PARTIES (continued)

2015/16

	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
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
Compensation paid to key management personnel						
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. Information disclosed in the remuneration section of the integrated report.

	2017/18	2016/17	2015/16
	R'000	R'000	R'000
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**

32 RELATED PARTIES (continued)

		2017/18								2016/17	2015/16
		Salaries	fund contribution	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
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.

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 A&R 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 A&R 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 A&R 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 A&R committee.

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 A&R 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 a The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country; The political risk of the potential client's country;
- The previous business record that the existing cli The previous business record that the existing client had with entities within the group (includes but is not limited to payment history);
- 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; and

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 A&R 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 A&R 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:

	2017/18			2016/17			2015/16		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP									
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**
COMPANY									
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.

	2017/18				2016/17				2015/16			
	Rece	Rece	Imp	Carr	Rec	Rec	Imp	Car	Rece	Rece	Imp	Carr
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
33 FINANCIAL RISK MANAGEMENT (continued)												
33.1 CREDIT RISK (continued)												
Ageing												
The ageing of financial assets at the reporting date is included below. The ageing categories include:												
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.

	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
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:												
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
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 rsk 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).

	GROUP			COMPANY		
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.

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:

	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
2017/18	Contractual undiscounted cash flows						
GROUP							
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							
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
2017/18							
COMPANY							
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	-

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 a 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.

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

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
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.

	GROUP			COMPANY		
	2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
	Rm	Rm	Rm	Rm	Rm	Rm
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
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper (refer note 24 and 24.6)	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

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 natrual hedged by keeping funds in customer foreign currency (CFC) accounts. A CFC account is a transaction account denominated in a foreign currency, i.e. any currency other than rand. It is available in all major currencies and is a useful mechanism for managing foreign currency receipts and payments.

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

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

	2017/18	2017/18	2016/17	2016/17	2015/16	2015/16
	USD	EUR	USD	EUR	USD	EUR
GROUP	m	m	m	m	m	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 transcations (revenue)	58	15	38	7	358	208
Forecast transcations (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						
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 transcations (revenue)	40	12	27	8	358	208
Forecast transcations (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

Strenghtening 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 abovementioned 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 exhange contracts existed at 31 March:

	2017/18			2016/17			2015/16		
	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
GROUP									
Foreign currency derivatives									
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									
Foreign currency derivatives									
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 87

	2017/18 One year	2017/18 Two years	2017/18 Three to five	2017/18 Total	2016/17 One year	2016/17 Two years	2016/17 Three to five	2016/17 Total	2015/16 One year	2015/16 Two years	2015/16 Three to five	2015/16 Total
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	**8 785 769**	-	-	**8 785 769**	221 311 733	-	-	221 311 733
Sterling (GBP)	21 521	-	-	21 521	**57 977**	-	-	**57 977**	360 144	-	-	360 144
Switzerland (CHF)	2 450 046	-	-	2 450 046	**513 143**	-	-	**513 143**	5 934 796	-	-	5 934 796
US Dollar (USD)	58 578 490	-	-	58 578 490	**33 490 757**	**2 542 434**	-	**36 033 191**	459 400 487	29 728 033	-	489 128 520
Purchase contracts												
Euro (EUR)	9 783 591	-	-	9 783 591	**19 147 023**	-	-	**19 147 023**	171 235 033	2 688 548	1 205 287	175 128 868
Australian Dollar (AUD)	-	-	-	-	-	-	-	-	87 600	-	-	87 600
Sterling (GBP)	1 027 807	-	-	1 027 807	**2 315 530**	-	-	**2 315 530**	6 092 139	1 358 780	-	7 450 919
Switzerland (CHF)	91 378	-	-	91 378	**191 678**	-	-	**191 678**	13 318 838	-	91 378	13 410 216
US Dollar (USD)	22 088 741	-	-	22 088 741	**8 447 633**	-	-	**8 447 633**	15 620 439	-	-	15 620 439
COMPANY												
Foreign exchange contracts												
Revenue contracts												
Euro (EUR)	11 907 253	-	-	11 907 253	**9 902 618**	-	-	**9 902 618**	214 440 296	-	6 871 437	221 311 733
Sterling (GBP)	-	-	-		**79 700**	-	-	**79 700**	360 144	-	-	360 144
Switzerland (CHF)	2 450 046	-	-	2 450 046	**513 413**	-	-	**513 413**	5 934 796	-	-	5 934 796
US Dollar (USD)	39 503 414	-	-	39 503 414	**2 863 527**	-	-	**2 863 527**	423 787 592	-	65 340 928	489 128 520
Purchase contracts												
Euro (EUR)	8 756 809	-	-	8 756 809	**7 164 023**	-	-	**7 164 023**	168 252 931	325 755	1 205 287	169 783 973
Australian Dollar (AUD)	-	-	-	-	-	-	-	-	87 600	-	-	87 600
Sterling (GBP)	1 027 807	-	-	-	**487 401**	-	-	**487 401**	4 109 139	133 210	-	4 242 349
Switzerland (CHF)	91 378	-	-	-	**191 678**	-	-	**191 678**	13 318 838	-	91 378	13 410 216
US Dollar (USD)	21 968 653	-	-	-	**7 530 173**	-	-	**7 530 173**	14 966 801	-	-	14 966 801

Firm commitments

Contracts (sale or purchase) denominated in a foreign currency, which is neither a common currency, the measurement currency of any party to the contract, nor the currency in which the commodity is routinely traded in international commerce, contains a foreign exchange embedded derivative (to sell or buy the equivalent amount of foreign currency), is separated and accounted for at fair value even though the contract is not recognised. Denel view the USD, GBP and EUR as common currencies.

	2017/18			**2016/17**			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
	m	Rm	Rm	**m**	**Rm**	Rm	m	Rm	Rm
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

	2017/18	2017/18	2017/18	2017/18	**2016/17**	**2016/17**	**2016/17**	**2016/17**	2015/16	2015/16	2015/16	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
					Foreign currency notional amount (m)							
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

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:

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
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		-		-	-
Interest bearing borrowings (refer note 24)		(3 333)		(3 333)	(3 333)
Other financial liabilities (refer note 19.2)			(211)	(211)	(211)
Preference dividends payable		(6)		(6)	(6)
Trade and other payables (refer note 27)		(2 301)		(2 301)	(2 301)
Bank overdraft (refer note 20.1)		-		-	-
		(5 640)	(211)	(5 851)	(5 851)
Financial liabilities					
Net financial assets/(liabilities)	2 796	(5 640)	(18)	(2 862)	(2 862)
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)

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	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	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)
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)	84	(1 083)	(1 083)

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)	Refer note 1.4.6.	Refer note 1.4.6.	Level 3
Derivative financial assets (refer note 19.1)	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 r	Level 2
Financial assets			
Non-current assets held for sale (refer note 21)	Refer note 1.4.18.	Refer note 1.4.18.	Level 3
Cash and cash equivalents (refer note 20.1 and 20	Refer note 1.4.4. **	Refer note 1.4.4. **	Level 2
Trade and other receivables (refer note 17)	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2
Financial liabilities			
Derivative financial liabilities (refer note 19.2)	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	Rm
GROUP						
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
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)

	Car ryi ng	Fai	Leve	Leve	Leve	Tota
	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY						
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)
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)

	Car ryi ng	Fai	Lev	Lev	Lev	Tota
	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY						
2015/16						
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.

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 xxx 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 xxx to xxx.

The net asset cannot be recognised by Denel accodsing to the IAS 19 standards given that Denel cannot acces the assets from the Trust to derive economic benefit, as this belong to the beneficiaries of the DMBT.

The actuarially calculated liability compared to assets is as follows for the defined benefit plans:

	2016/17	2016/17	2015/16
	R'000	R'000	R'000
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**

35.1 DENEL MEDICAL BENEFIT TRUST (continued)

	2016/17	2016/17	2015/16
	R'000	R'000	R'000
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

	2017/18		2016/17		2015/16	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	%	%	%	%	%	%
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	11	9	11	9	11	9

Amounts for the current and previous seven years are as follows:

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
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 spesific entity.

36 SEGMENT REPORTING (continued)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017/18								
Segment revenue	-	-	-	-	-	4 998	-	4 998
Revenue from external customers	-	-	-	-	-	4 998		4 998
Intergroup revenue	-	-	-	-	-	-	-	-
Contribution	0%	0%	0%	0%	0%	100%		100%
Segment operating profit/(loss)	-	-	-	(1)	-	(2)	(1 684)	(1 687)
Net finance income/(costs)	-	-	-	-	-	2	(294)	(292)
Finance income	-	-	-	-	-	-	67	67
Finance cost	-	-	-	-	-	2	(361)	(359)
Share of results of associated companies							226	226
Income tax expense	-	-	-	1	-	-	(19)	(18)
Net profit/(loss) for the year	-	-	-	-	-	-	(1 771)	(1 771)
Segment assets	-	-	-	-	-	-	12 427	12 427
Deferred tax assets								(36)
Total assets								12 391
Segment liabilities	-	-	-	-	-	-	10 168	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	-	-	-	-	-	-	60	60
Impairment losses raised/(reversed)	-	(72)	-	-	-	-	349	277
Depreciation/amortisation i.r.o. segment assets	-	1	-	-	-	-	137	138
Revenue from major customers								
South African Government	-	-	-	-	-	-		-
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	-		-

36 SEGMENT REPORTING (continued)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2016/17 (restated)								
Segment revenue	-	-	-	-	-	4 998	-	4 998
Revenue from external customers	-	-	-	-	-	4 998		4 998
Intergroup revenue	-	-	-	-	-	-	-	-
Contribution	0%	0%	0%	0%	0%	100%		100%
Segment operating profit/(loss) {1}	13	(96)	112	283	(110)	(397)	458	401
Net finance income/(costs)	-	-	-	21	-	(1)	(271)	(251)
Finance income {2}	-	-	-	21	-	-	80	101
Finance cost	-	-	-	-	-	(1)	(351)	(352)
Share of results of associated companies	-	-	-	-	-	-	-	155
Income tax expense	-	-	-	-	-	-	(23)	(23)
Net profit/(loss) for the year {1 and 2}	13	(96)	112	304	(110)	(398)	164	282
Segment assets {1}	-	(72)	-	-	-	-	13 110	13 038
Deferred tax assets								(36)
Total assets								13 002
Segment liabilities {2}	-	-	-	(21)	-	-	9 730	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	-	-	-	-	-	-	65	65
Impairment losses raised/(reversed)	-	72	-	-	-	-	(36)	36
Depreciation/amortisation i.r.o. segment assets	-	36	14	39	18	46		153
Revenue from major customers								
South African Government	-	553	-	786	223	16		1 578
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	-		-

[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	Amounts owing to/(by) Denel SOC	percentage shareholding	Share capital issued	Share investment by Denel SOC	Amounts owing to/(by) Denel SOC	percentage shareholding	Share capital issued	Share investment by Denel SOC	Amounts owing to/(by) Denel SOC	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)	(451)	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[5]		(1 055)	(650)			(1 055)	(336)			(1 055)	(336)	
Net investment of Denel SOC Ltd[5]		**1 580**	**(449)**			**1 486**	**(191)**			**1 486**	**(361)**	
Subsidiary shareholding by LMT Holdings SOC Ltd (RF), a subsidiary of Denel SOC Ltd[6]												
LMT Products SOC Ltd	-	-	-		-	-	-	51	-	-	-	51
LMT Engineering SOC Ltd	-	7	-		-	7	-	51	-	7	-	51
LMT Properties SOC Ltd	-	-	-		-	-	-	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[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[9]	-	-	-	49	-	-	-	49	-	-	-	49
Net investment of Denel Vehicle Systems (Pty) Ltd		**-**	**-**			**-**	**-**			**-**	**-**	

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

1 Amounts smaller than R0.5m due to rounding are not reflected against the entity's but in aggregate on this page.
2 This includes R16m (2016/17: R16m, 2015/16: R16m) preference shares.
3 Refer note 8.
4 The invesment 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.
5 Refer notes 12 and 14.
6 Shares are not held by the group but effective management control is exercised in these entities.
7 70% shareholding by Airbus DS Optronics GmbH was sold to Hensoldt Optronics (Pty) Ltd on 28 February 2017. This has not altered the shareholding of Denel. Airbus DS Optronics (Pty) Ltd's name was subsequently changed (after 31 March 2017) to Hensoldt Optronics (Pty) Ltd.
8 Refer note 13.
9 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.

38 IRREGULAR EXPENDITURE

	GROUP			COMPANY		
	2017/18	**2016/17**	**2015/16**	**2017/18**	**2016/17**	**2015/16**
	Rm	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Balance at 1 April	116	49	-	43	47	-
Add: Irregular expenditure incurred in the prior year as well as in the current year	22	7	5	-	-	5
Deviations from the procurement process not adequatelly 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 adequatelly 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 adequatelly approved	-	8	-	-	-	-
Contract extension not adequatelly 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 identifoed 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 adequatelly 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 Natioanl Treasury SCM Instruction No. 3 of 2016/17 and tje Natioanl Treasury SCM Instruction No. 1 of 2015/16.

Ageing of 2017/18 irregular expenditure not condoned

	Greater than 24 months	Greater than 12, but less than 24	Less than 12 months	Total
	Rm	**Rm**	**Rm**	**Rm**
Deviations from the procurement process not adequatelly approved	93	-	-	93
Tax clearance certificates not obtained	10	-	27	37
Evaluation criteria not adequatelly 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	-	-	54	54
Irregular expenditure identifoed by the external auditors	-	-	313	313
	115	**-**	**398**	**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 disciplianry steps/criminal proceedings are required.

38 IRREGULAR EXPENDITURE (continued)

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 apects related to consequence management. The details of the instances have been placed below:

		GROUP			COMPANY		
		2017/18	2016/17	2015/16	2017/18	2016/17	2015/16
		Rm	Rm	Rm	Rm	Rm	Rm
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 competetive biddng process not adeuqately approved		216	-	-	216		-
Appointment of a supplers utilising a process which is not fair and competetive		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 Natioanl Treasury SCM Instruction No. 3 of 2016/2017 and Natioanl Treasury SCM Instruction No. 1 of 2015/2016.

6 Seventeen (17) cases [six relating to Denel SOC] awarded to foreing 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 complaiance

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		
		Restated			Restated	
	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)**

39 RESTATEMENT OF FINANCIAL INFORMATION PREVIOUSLY PRESENTED (continued)

39.2 Intra-group loans receivable and payble 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. Further to that the terms and conditions of these loans need to be disclosed to determin whether their current or non-current in terms of IAS 1 par 66 and 67. In considering IAS 32, management undertook to separately disclose the loans receivables and payables.

	GROUP			COMPANY		
		Restated			Restated	
	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 (refer note 39.2)					(601)	(386)
Loans and borrowings (refer note 39.2)					456	195
				1 580	**1 486**	**1 486**
Loans and receivables (refer note 14)						
Previously reported		-	-		-	-
Intragroup loans (refer note 39.2)	-	-	-	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 the statement of financial position and the disclosure requirement in relation to Construction Contracts IAS 11, the prepayments from customers were not separately disclosed 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 disclose these amounts separately.

39.4 Contract assets and Contract liabilitites not separately disclosed

Upon review the statement of financial position and the disclosure requirement in relation to Construction Contracts IAS 11, Gross amounts due from/(to) customers were not separately disclosed 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 management considered IAS 1 par 29 and decided to disclose these amount separately on the face of the statement of financial position.

	GROUP			COMPANY		
		Restated			Restated	
	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 27)						
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 received (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**

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 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 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.

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.

	GROUP			COMPANY		
		Restated			Restated	
	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**
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION (continued)						
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**

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 asset that were previousy 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 ascertain the time at which the transferred occurred and therefore could 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.

	GROUP			COMPANY		
		Restated			Restated	
	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 Wording required on uncorrected intragroup transactions wrt associated companies. In the process of collecting the information from entities.

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 financila 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 201/19.

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 overfunded and Denel has not make any further contributions during the year. This benefit has not been recorded in Denel's accounts.

39.13 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.

39.14 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		
		Restated			Restated	
	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
Fair value adjustment on investment properties (refer note 39.8)		-	-		-	-
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)
Providing for future losses (refer note 39.7)		21	10	-	21	10
	(5 204)	**(3 542)**	**(3 836)**	**(5 760)**	**(4 173)**	**(4 224)**

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 R1.8bn, (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; and
- 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 March 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.