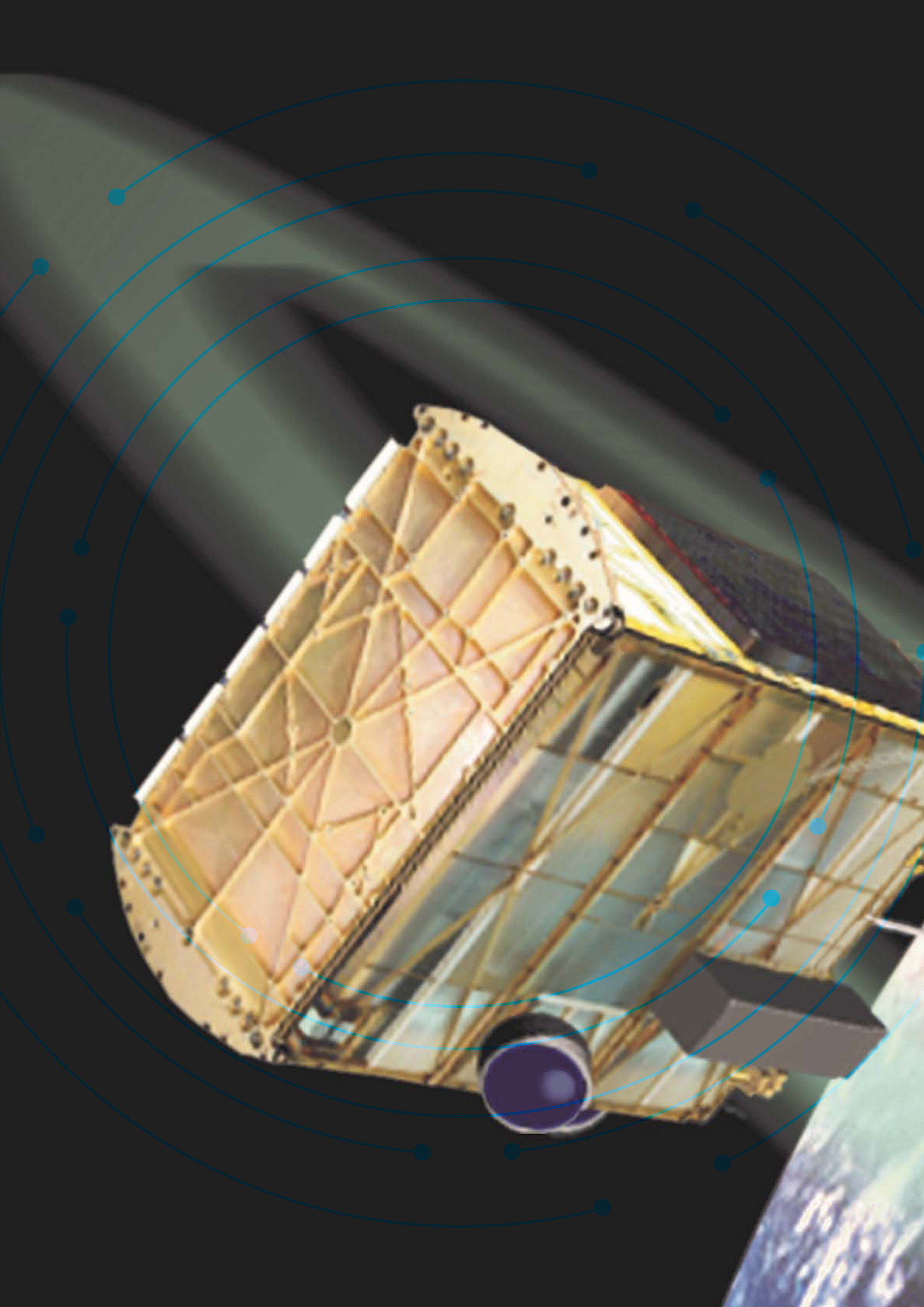


ANNUAL
REPORT | 2023/24



ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations, and its ability to create value for the period 1 April 2023 to 31 March 2024. Financial information includes information regarding associated companies. All significant items are reported on a comparative basis.

ASSURANCE

Financial information

The financial information in this report has been prepared in accordance with International Financial Reporting Standards (IFRS). It was independently audited by Denel's external auditors, the Auditor General of South Africa. The report of the external auditors on the financial statements is included on page 47.

Non-financial information

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

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

REPORT CONTENT

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

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

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit and risk Committee, has taken overall responsibility and accountability for this report. The Board confirms that it has collectively reviewed its content. The Board believes that this report is a balanced and appropriate presentation of the profile and performance of Denel. The Board approved this report on page 42.



**Interim Chairperson of the Board
Denel**



**Chairperson of the Audit and
Risk Committee**

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The graphic features several concentric circles of varying radii, some solid and some dashed. Small white and dark blue dots are placed at various points along these circles, creating a sense of motion or a network. The circles are centered on the text.

SECTION 1

WHO
WE ARE



VISION

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

PURPOSE

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



OUR VALUES

PERFORMANCE



We embrace operational excellence

INTEGRITY



We are honest, truthful and ethical

INNOVATION



We create sustainable, innovative solutions

CARING



We care for our people, customers, nations and environment

ACCOUNTABILITY



We take responsibility for our actions

WHO WE ARE

ONE DENEL. ONE VISION. ONE PURPOSE!

Our business divisions are as follows:

DENEL AEROSPACE



Denel Aerospace includes Denel Aeronautics operating in conjunction with Denel Overberg Test Range (OTR) and incorporates the Denel Technical Academy (DTA). Denel Aeronautics delivers end-to-end aeronautical solutions including aircraft, engine and component maintenance, repair and overhaul services (MRO), aircraft system upgrades and integration.

Denel Aeronautics is the original equipment manufacturer (OEM) of the Rooivalk combat support helicopter, as well as the design authority for both the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft. Denel Overberg Test Range is a versatile test range specialising in flight tests on sophisticated missile and rocket systems as well as tests of short-range guided munitions for land, sea and air combat and the evaluation of modern standoff weapons and aviation systems.

DENEL DYNAMICS



As an innovation leader in advanced systems technology, the core business of Denel Dynamics is the design, development and manufacture of tactical missiles and precision-guided weapons. It also offers competitive tactical UAVS and target systems. These products and capabilities contribute to Denel's ability to penetrate international markets.

DENEL LANDWARD



Denel Landward, incorporating Denel Land Systems (DLS) and Pretoria Metal Pressing (PMP) is a leading project-based, consolidated systems designer, and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. It is also a sub-system supplier for artillery, rapid-fire medium-calibre weapons, and combat vehicle systems. PMP, is an integrated manufacturer of small- and medium-calibre ammunition, brass products, detonics, power cartridges and mining drill bits. The company has been supplying products to military and police forces, and to the hunting and sporting fraternities around the world, for more than 80 years.

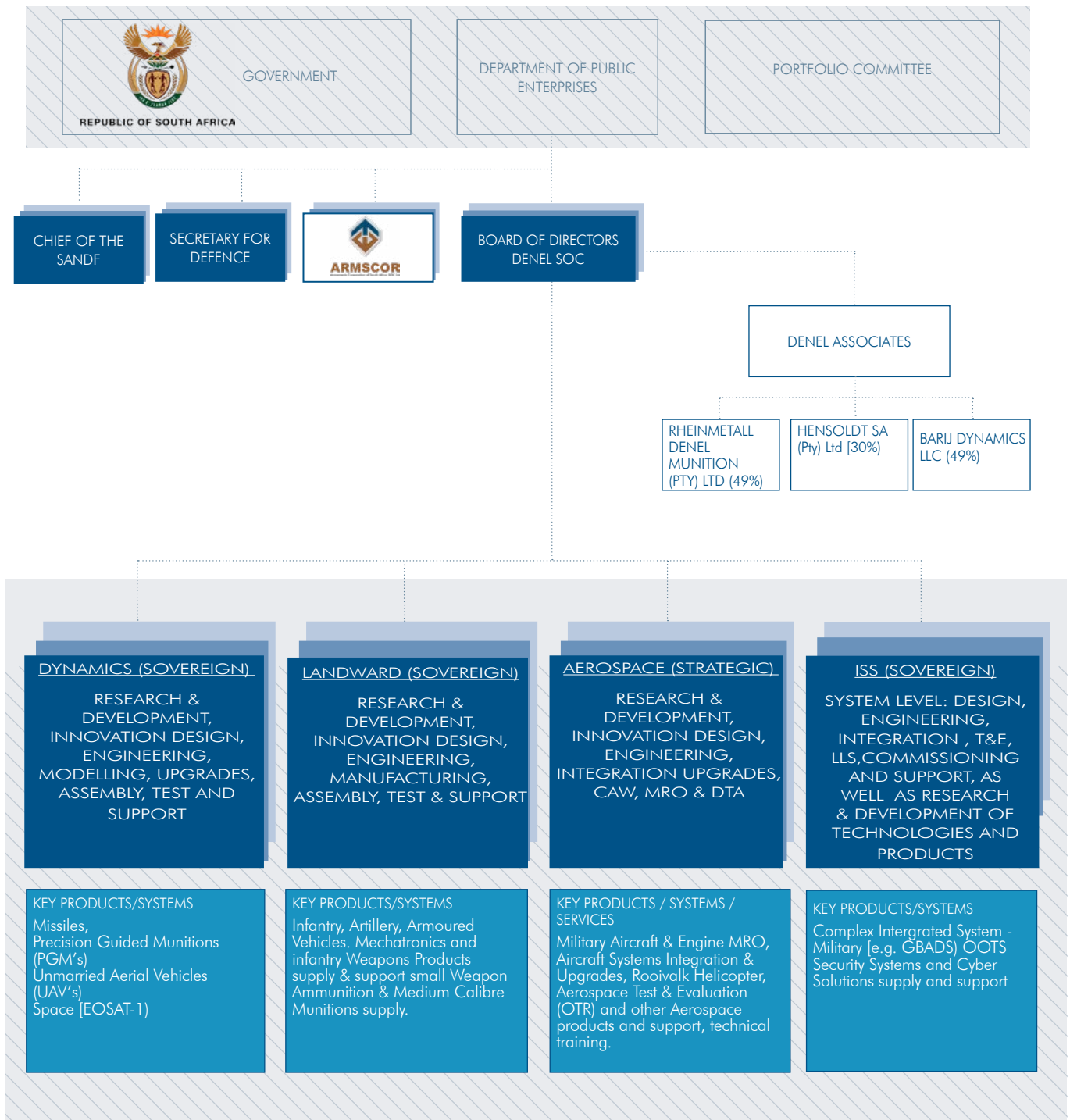
DENEL INTEGRATED SYSTEM SOLUTION



Integrated System Solution (ISS) include Complex Military and Commercial System Integration (C5ISR): Design, Development, Engineering, Integration, and through life support of Land, Air and Sea systems.

The business unit is appointed as the design sovereign authority for Ground Based Air Defence Systems (GBADS) for the SANDF, and also specialises in complex cyber and security solutions. This business unit ensures Denel's protected defence and security interests through accredited civil security services.

ORGANISATIONAL STRUCTURE



CHAIRPERSON'S REPORT



TSHIDI MOKGABUDI

INTERIM CHAIRPERSON OF THE
BOARD OF DENEL SOC

Denel has endured a challenging path to recovery after years of significant setbacks, yet it remains an indispensable pillar of South Africa's strategic infrastructure. As a primary provider of sovereign and critical capabilities, Denel drives the local defence industry, which exports advanced manufactured products to several markets across the world.

Despite the tough circumstances, the company continues to be a strategic national asset, essential for defending South Africa's sovereignty and the safety of its citizens.

The defence sector, however, is confronting a crisis. Revenue and exports are steadily declining, and investment in research and development has been reduced to unprecedented levels.

These setbacks have a domino effect, crippling many small and medium-sized companies, obstructing progress toward industry transformation, and driving a continuing loss of skilled talent.

It is critical that South Africa sustains Denel's core design and manufacturing capabilities. In an increasingly volatile global landscape where conflict can erupt

quickly, having a robust domestic defence industry is more vital than ever.

The Board emphasises that the decline of Denel would threaten the entire defence and technological sectors, potentially bringing them to a standstill. Developing homegrown defence technologies is vital for protecting national sovereignty. Over-reliance on international suppliers jeopardises our strategic independence, and losing those capabilities is a risk we simply cannot afford to take.

GOVERNANCE

The new Memorandum of Incorporation has been approved, filed and accepted. The maximum number of directors is now set at 10.

However, the Board identified certain skills gaps within its own ranks and requested the Shareholder to consider appointing additional members with proficiencies in the fields of engineering skills and project management to fill vacancies.

The appointment of Group Chief Executive Officer was a vital step to stabilise the leadership of the organisation. Further appointments to senior management positions, including the Group Chief Financial Officer and the Internal Audit Executive are imminent.

The Board continues to cooperate with the National Prosecution Authority and the Special Investigating Unit regarding investigations into state capture. We are confident that legal action will soon be taken against individuals named in the Zondo Commission report.

IDENTIFYING THE RISKS

The Board has identified issues which are regarded as the primary business risks confronting the company. Among these are:

- Stability of leadership and the filling of critical positions.
- Low staff morale and inability to retain and attract top-class talent to Denel.
- Ageing ICT infrastructure which poses a risk to business continuity.
- The absence of audited financial statements.
- Decisions taken by banks to offload defence clients in line with internal environmental, social and governance (ESG) frameworks.
- Continuing insecurity about the future of the Hoefyster project.
- Delays in contracting an agreement on helicopter maintenance, repair and overhaul services with the SA Air Force impacts negatively on the Air division. Work is currently done at risk, and cashflows are severely depleted.

FINANCIAL PERFORMANCE

Revenue is lower due to the non-performance of some divisions. Gross profit decreased due to penalties on late deliveries and reduced revenue. The net loss was more than 100% higher than what was budgeted for due to lower revenue and higher operating costs.

Part of Denel's turnaround plan focused on the possibility of selling its assets in non-core businesses. The Department of Defence raised misgivings about this approach and National Treasury did not approve the sale of shares in Hensoldt.

The Department of Defence did, however, provide strong support for Denel's request that the National Treasury release the remainder of the R1,8bn recapitalisation funds. Settlements with back log legacy creditors awaits the unblocking of these funds.

The Board and senior management are considering alternative options to make sure sufficient funding is available for the execution of the next stage of the turnaround plan.

The Department of Defence is supporting Denel with the revitalisation of Project Kamas and Hoefyster. The production of the first battalion of Hoefyster Phase 2 has been approved by the project control board, and the contract variation order is under review.

A meeting was held between the chairmen of the boards of Denel and Armscor to ensure better alignment on projects that are vital to the security of South Africa and its citizens.

Our international customer base was severely affected by the allegations of state capture and is now being revitalised. We identified a high priority opportunity pipeline within these markets of at least R26bn.

BACK IN BUSINESS

During the past year Denel took a decision to raise its local and global profile to indicate that we are back in business.

We attended the World Defence Show in the Kingdom of Saudi Arabia to re-establish our presence and consolidate our position in a key region of the world.

Formal engagements were held with key customers and companies, and we were able to confirm Denel's commitment and ability to perform and deliver on vital future contracts.

The renewed interest in Denel's capabilities was underscored by our hosting of formal delegations from countries such as Brazil, Indonesia, Jordan, Uganda, Zambia and Niger.

FUTURE PERSPECTIVE

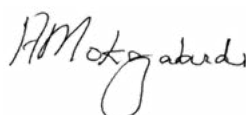
There remains a strong appetite within both the client environment and the private sector for strategic partnerships that can be leveraged to safeguard sovereign and strategic capabilities and restore Denel's financial stability. Furthermore, there is considerable interest in Denel's battle-hardened intellectual property, and the dynamic global defence landscape presents new opportunities to market our products and forge deeper strategic alliances.

Once Denel is stabilised and its reputation rebuilt, the company will focus on cultivating long-term strategic partnerships across all business areas. This approach will solidify our presence in local and international markets and unlock the full potential of our intellectual property and capabilities within Denel.

It is undeniable that Denel is making a definitive comeback and is actively redefining its future. Although its shape and structure may evolve, the core of Denel remains intact. It continues to be a valuable asset, playing a crucial role in ensuring South Africa's sovereignty.

The essence of Denel has survived the devastating impacts of state capture, as exposed during the Zondo Commission of Inquiry. Despite these challenges, our confidence in the road ahead rests on the strength of our personnel, the quality of our products, our support frameworks, and enduring partnerships with customers and stakeholders. We are also supported by the unwavering backing of the Shareholder, currently represented by the Minister of Public Enterprises.

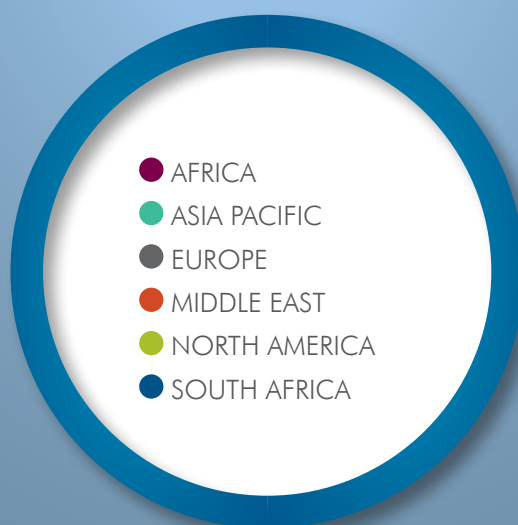
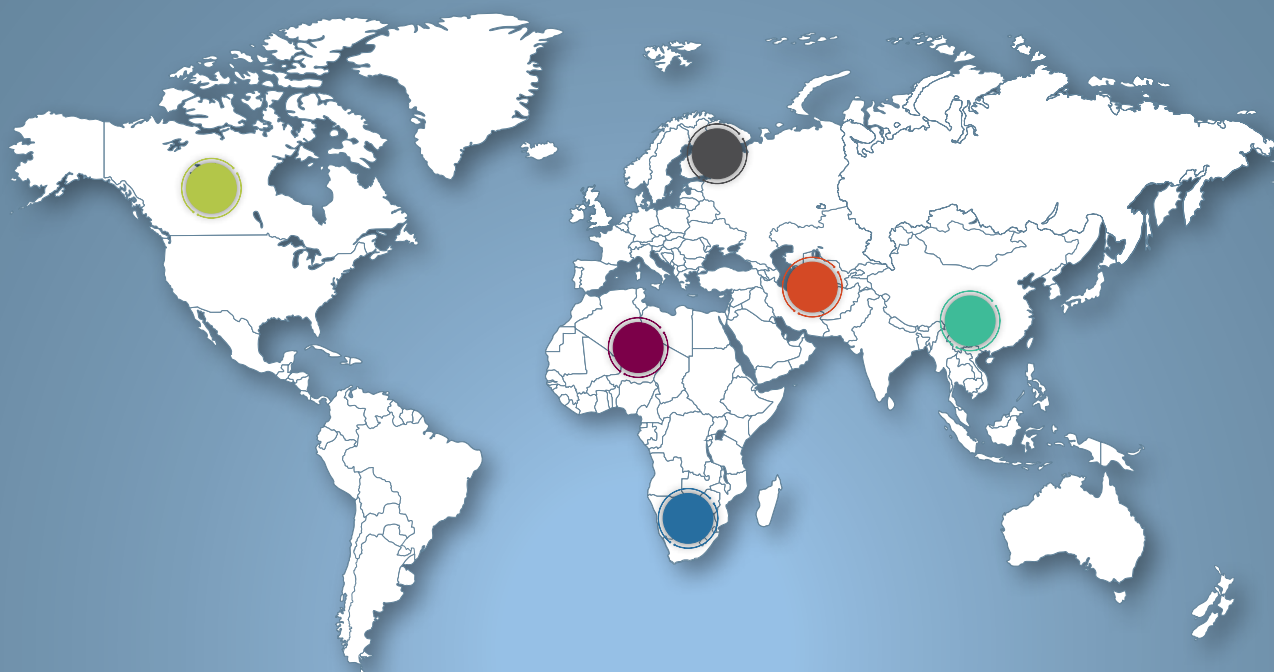
Rebuilding and repositioning Denel is a complex and demanding journey. I want to acknowledge and thank every staff member for their sacrifices and dedication to keeping Denel alive and moving forward.



Ms AM Mokgabudi

Interim Chairperson of the Board of Denel

OUR GLOBAL PRESENCE





The graphic features several concentric circles of varying radii, some solid and some dashed. Small dots, in both teal and white, are placed at various points along these circles, creating a sense of motion or data points. The background is a solid teal color with a large, semi-transparent teal circle and a teal trapezoidal shape at the bottom.

SECTION 2

PERFORMANCE REVIEW

CEO'S REPORT



**TSEPO
MONAHENG**
GROUP CHIEF EXECUTIVE
DENEL SOC

In the past year, we achieved progress in reshaping Denel into a lean, sustainable company poised for growth. Our focused efforts to implement the turnaround plan are gaining traction, laying a solid foundation for forging strategic partnerships within the local defence and technology sectors and strengthening our position in both local and international markets.

A streamlined Denel will zero in on our core competencies, including land defence systems, guided weapons, aircraft engineering, maintenance, and delivering complex integrated solutions for security and cyber domains. Nonetheless, the challenge remains that our fixed costs presently far exceed our revenue-generating capacity.

A sustainable restructuring will be achieved through increased efficiencies, reducing staffing levels, downsizing our geographic footprint, and simplifying policies and processes. Financial stability will also flow from strategic steps such as divesting non-core assets, recruiting and retaining top talent, and restoring strong, productive relationships with the workforce.

There is a strong appetite within the defence industry for strategic collaborations, both locally and globally. Denel's valuable intellectual property and core capabilities present opportunities for partnerships in commercial markets and with other state-owned entities.

The government's pledge to recapitalise a restructured Denel provides a stable platform for our immediate future. Our objective is to diminish reliance on public funding for critical national and defence capabilities. We will ring-fence resources designated for strategic and sovereign functions to shield them from the sharp downturns in export markets, as seen during the Covid-19 crisis.

Lastly, we will cultivate "smart partnerships" with industry leaders to foster job creation across the defence sector. Denel will become "lean and efficient," with a flexible cost structure and capabilities that can be harnessed for productive engagements with private industry, ensuring our long-term relevance and resilience.

OPERATIONAL HIGHLIGHTS

A special milestone was achieved when the Badger Infantry Fighter Vehicle was integrated into the forces during the SA Army's exercise at the Lohatla training centre.

The Umkhonto Surface-to-Air missile was successfully fired during a demonstration in a European country, and this improved Denel's chances to receive follow-up contracts from the clients.

Project Kamas, the industrialisation phase of the A-Darter development programme, was reinstated by the SA Air Force and three sets of G5 and G6 artillery were delivered to the SA Army in terms of Projects Topstar and Muhali.

OPERATIONS

AEROSPACE

We delivered six Oryx and three Rooivalk helicopters from MRO to the SA Air Force despite inadequate ad hoc funding.

Concerns about obsolescence in the Rooivalk requires further intervention. If these concerns are not adequately addressed the operational effectiveness of the system might be compromised in the near future.

We are involved in ongoing engagements with Armscor and the SA Air Force to resolve the current impasse on helicopters support. The Denel Board agreed that DAero will continue to work on risk, given the critical service we provide to protect national security.

Moreover, we are confident that a three year contract for maintenance, repair and overhaul services will be placed this year. The largest slice of DAero's revenue is connected to Oryx and Rooivalk and if a contract is not placed on time DAero will not meet its forecast and lose the opportunity to bid for the contract for the Safran Helicopter Engineers overhaul.

OTR

A very successful series of tests were completed with the air force of a country in South East Asia. including the firing of RBS-70 missiles under very difficult conditions at the Overberg Test Range. The last milestone was delivered in April 2024, and the client was very satisfied with the one-stop service delivered at the test range.

GUIDED WEAPONS

Among the milestones are the conclusion of a Sea Acceptance Test with a Finnish Client which was followed up by the signing of a five year maintenance contract.

The KAMAS programme proceeded as agreed and was confirmed with the signing of a Contract Variation Order. Significant progress has been made to finalise manufacturing baselines which will enable the manufacturing phase of the A-Darter missile.

A Sea Acceptance Test was successfully completed on the SQ2000MLU, and a live firing took place in the client's country.

LANDWARD

Denel Landward continues to retain its reputation as a project based, consolidated systems designer and integrator of turrets, artillery systems and armoured vehicles.

Despite the difficult conditions it is still known for its ability to resuscitate and reindustrialise key capabilities to manufacture large core weapon components.

During the year it utilised several opportunities to showcase its capabilities in artillery and infantry systems to current and new customers.

The relocation of the DVS facilities in Benoni to Lyttelton was completed. Moreover steps were taken to recruit and retain core skills to support the order book to prepare for the envisaged growth path.

PMP

PMP is still experiencing significant challenges. During the year under review two large orders from foreign clients were cancelled.

Revenue is well below budget. The company is vertically integrated and thus requires a consistent flow of materials and services throughout its value chain to keep operations running smoothly and avoid inefficiency costs.

Covid-19 and liquidity challenges had a severe and long-lasting impact on the business. Unpaid salaries and subsequent resignations led to a huge loss of technical skills, and it experienced many breakdowns and shortages of materials at plants following periods of low and/or no activity.

The operations at PMP were severely affected by the four month strike by city workers in Tshwane. At the time cable theft was also rife and the city was unable to respond to many incidents. However, the SANDF contributed greatly to stability by placing troops at both Pretoria West and Lotus Gardens campuses. Multiple power failures were experienced and the furnace solidified and had to be rebuilt.

Initiatives to procure buffer stock was approved but experienced huge delays due to a lack of funds. The stop/start operations led to a loss of operational output, delayed sales and huge inefficiencies.

It is of vital importance to find feasible solutions for the situation at PMP. If not, the SANDF's sovereignty will be compromised, and it will have a negative downstream impact on the security, manufacturing and mining sectors.

DISS

Denel Integrated Systems Solutions is an independent division of the group, responsible for Ground Based Air Defence Systems and other complex system environments.

DISS is growing Denel's presence in the non-military environment, and a key future focus will be to provide system integration, cyber and civil security and system support to other State-owned Entities. A Memorandum of Understanding was signed with the Border Management Agency to introduce such services.

Business development initiatives continued in the military environment and GBADS proposals were offered to clients in Brazil, Malaysia and Canada and for a joint venture between Armscor, Denel and SAMI.

FINANCIALS

The turnaround of Denel continues to be affected by the financial position of the company. Revenue is behind budget by 27%, Opex is 26% negative due to delays, Guided Weapons and Landward is severely underfunded and liquidity remains constrained with management monitoring the inflows and outflows very closely.

The bulk of the recapitalisation funds was used to pay legacy debts to suppliers. There are limited funds available for working capital leading to lower than forecasted revenue and cash.

STAKEHOLDER ENGAGEMENTS

Marketing activities and meetings with other agencies in South Africa's which share Denel's broad mandate continued throughout the year.

Denel attended the World Defence Show in Saudi Arabia and utilised the opportunity to meet with, and exchange ideas, with defence decision-makers and analysts in the region. This enabled us to scan the environment and identify niche markets which may be followed up.

Similarly, we were part of the state visit to Qatar where ongoing discussions were also held on the execution of the Ingwe anti-tank missile.

A highlight of the year was the successful demonstration tests of the T5-52 self-propelled Howitzer and the Seeker at the Alkantpan test range, which was attended by representatives of eight countries.

Denel played host to delegation at the 20th African Growth and Opportunity Conference (AGOA), and President Cyril Ramaphosa visited our stand to see the Seeker 400 UAV on display.

BUSINESS DEVELOPMENT

Denel submitted a proposal for the T5-52 self-propelled Howitzer to Malaysia while Oman was engaged with a proposal to upgrade the G6. Negotiations on the latter are completed and a resolution is expected soon.

We were also invited to conduct an in-country demonstration of the G6 - 52 in the Middle East.

MITIGATION OF RISKS

As Denel enters the final stage of the implementation of its turnaround plan, management has identified a number of strategic risks that may hamper the future trajectory of the company.

Management and the Board are taking far-reaching steps to mitigate the impact of these risks.

The new operating model, including the introduction of shared services and the rationalisation of Denel's geographic footprint will, no doubt, contribute to a lasting solution.

The relationship between Denel and Armscor has been stabilised to the point where joint strategic planning is taking place. Guided Weapons presented

short and long term plans to Armscor regarding a capability turnaround for missile design, development and manufacturing and missile detector facility.

Denel is reaching out to customers and suppliers to resolve outstanding issues and to reel-in reputational damage.

There is new impetus regarding business development and Denel is again raising its profile through participation in exhibitions and other marketing campaigns.

The overall opportunity pipeline exceeds R30bn with a broad range of high and low value, high or low probability and variable timelines. Priority is given to those with high value and short timelines.

FUTURE PROSPECTS

Denel is ready for the implementation of the new operating model envisaged in the turnaround plan. This means the restructuring of divisions, the rationalisation of the geographic footprint and the introduction of shared services.

With a new management in place and several key positions filled on a permanent basis we can complete the unlocking of the supply chain in order for suppliers to support the current contracts.

Regarding the order book we are confident that Project Hoefyster can be reset and that the aeronautics order from the SA Air Force will be placed. Part of our immediate focus is to secure at least one significant contract in the short term.

CONCLUSION

There is still a strong and persistent appetite among clients for strategic partnerships that can help sustain our sovereign and strategic capabilities, paving the way for Denel's financial recovery.

Additionally, significant interest remains in Denel's battle-tested intellectual property. The rapidly evolving global defence landscape presents numerous opportunities to market our products and deepen strategic alliances, further strengthening our position.

Once Denel stabilises and rebuilds its reputation, we will focus on cultivating long-term strategic partnerships across all business areas. This approach will solidify our presence in both domestic and international markets while maximising the value of our intellectual property and core capabilities.

It is clear that Denel is making a strong comeback and actively redefining its future. Though the company may take new shapes and structures, its essential core remains intact. Denel continues to be a vital national asset, playing a critical role in safeguarding our sovereignty.

I want to extend my sincere thanks to the Denel Board, led by Ms. Gloria Serobe. Their guidance has been invaluable to management, and we remain confident that we will continue to draw on their wisdom and strategic insight as we advance with Denel's restructuring.

Our Shareholder, represented by the Department of Public Enterprises, provided Denel with strong support throughout the year and I also express my appreciation to the leadership of the Department of Defence and the SANDF for their ongoing backing.

Rebuilding and repositioning Denel is a challenging journey. I commend and thank every staff member for the sacrifices they are making to keep Denel moving forward, demonstrating their commitment to the company's renewed future.



Mr OT Monaheng

Group Chief Executive Denel SOC





SECTION 3

OUR
GOVERNANCE

DENEL BOARD OF DIRECTORS

The board is responsible for strategic direction and oversight of the company. The board is composed of the following members:



MRS GLORIA TOMATOE SEROBE
(65)
(Interim Chairperson)

B.Com Degree and MBA Degree

INDEPENDENT NON- EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS:

Chairperson of the Board

DIRECTORSHIPS:

Founder and Executive Director of WIPHOLD. Non-executive Director of Hans Merensky Holdings, and Adcorp Holdings, Transtar Hotel Pty Ltd, Transkei Beef Pty Ltd

VALUE ADD TO THE BOARD:

Finance and business leadership
Appointed as Denel Acting Chairperson on 25 February 2021



MR THAMSANQA HAROLD MAGAZI
(67)

Bachelor of Science in Business Administration, Masters in Business Administration (MBA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 09 April 2018 (confirmed by cabinet 24 May 2018)

DENEL BOARD COMMITTEE MEMBERSHIPS:

Chairperson of the Personnel Remuneration and Transformation, member of Audit and Risk and Social and Ethics Committees

DIRECTORSHIPS:

100% shareholder and director of Reata Supplies International (company dormant), 100% shareholder of Brighthorse Investments Pty Ltd and non-executive director of Leshala Laruna Investments, and Blue Indigo Pty Ltd

VALUE ADD TO THE BOARD:

Business Strategy Development and Implementation, Operations and Sales Leadership



LIEUTENANT GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA
(71)

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

INDEPENDENT NON- EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS:

Chairperson of the Social and Ethics Committee and member of the Personnel, Remuneration and Transformation Committee

DIRECTORSHIPS:

Non-executive director of NT (MPAT)

VALUE ADD TO THE BOARD:

Industry Knowledge, Technical and Business Leadership and Stakeholder Management

DENEL BOARD OF DIRECTORS



MR MANDLA MARTIN MNISI
(44)

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

INDEPENDENT NON- EXECUTIVE DIRECTOR

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

DENEL BOARD COMMITTEE MEMBERSHIPS:

Member of the Audit and Risk and Personnel, Remuneration and Transformation Committee

DIRECTORSHIPS:

Director: MNS Attorneys, Magwambana Trading Pty Ltd, Usefull Trading, Manghisi Trading Pty Ltd, Stormy Pty Ltd, State Information Technology Agency and Barij Dynamics LLC

VALUE ADD TO THE BOARD:

Legal, Corporate Governance and Business Leadership



MS AUDREY MATSHIDISO SHALANG SELOMAGAE MOKGABUDI (70)

Chartered Accountant (SA), Dip Tax Law, Honours BSc, Bachelor of Accounting Science, Bachelor of Commerce, Economics and Industrial Psychology, Integral Couch, Dip: Nutritional Supplementation, iEQ9 Integrative Enneagram

INDEPENDENT NON- EXECUTIVE DIRECTOR

Appointed to the board on 25 June 2021

DENEL BOARD COMMITTEE MEMBERSHIPS:

Chairperson of Audit and Risk and member of Social and Ethics Committee

DIRECTORSHIPS:

Notes of Nature Wellness, Truworths International, Adcorp Holdings, Lanseria Airport, Vukile Nozala Trust and Hensoldt

VALUE ADD TO THE BOARD:

Financial and accounting specialist



MS MMAKEAYA MAGORO TRYPHOSA RAMANO (53)

Chartered Accountant (SA), Bachelor of Commerce Degree and Post-graduate Diploma in Accounting

INDEPENDENT NON- EXECUTIVE DIRECTOR

Appointed to the board on 23 February 2022

DENEL BOARD COMMITTEE MEMBERSHIPS:

Member of Audit and Risk Committee

DIRECTORSHIPS:

Co-Founder: Mmakgomake Legacy

VALUE ADD TO THE BOARD:

Financial and accounting specialist

DENEL BOARD OF DIRECTORS



**MR OTHNIEL TSEPO
MONAHENG
(60)**

GROUP CHIEF EXECUTIVE OFFICER:

BSc; BSc Eng.; MBA

DIRECTORSHIPS

Executive Director: Denel; Non-Executive Director: RDM; Non-Executive Director: Barij Dynamics.

VALUE ADD TO THE BOARD:

Business Leadership, Strategic Leadership, Business Turnaround, Engineering Management, Operations Management, Project Management, Programme Management, Business Development, Financial Management, Problem Solving, Decision Making, Telecommunication, Aviation, Defence, Communication and Stakeholder Management



**MR MICHAEL LESIBANE
KGOBE
(56)**

CHIEF EXECUTIVE:

Denel Aeronautics

Masters (Aeronautical maintenance and production management), Executive leadership programme

ACTING GROUP CHIEF EXECUTIVE OFFICER and EX-OFFICIO DIRECTOR

Appointed Acting Group Chief Executive Officer on 1 September 2022

DENEL BOARD COMMITTEE MEMBERSHIPS:

Invitee to Board Committees

DIRECTORSHIPS:

Non-executive director of Turbomeca Africa (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Business management, engineering and project management



**MS THANDEKA
NOSIPHO SABELA
(44)**

B.Com Degree, Postgraduate Diploma in Accountancy, Theory in Financial Management, CA (SA)

ACTING GROUP CHIEF FINANCIAL OFFICER and EX OFFICIO DIRECTOR

Appointed as Acting Group Chief Financial Officer with effect 26 March 2021

DENEL BOARD COMMITTEE MEMBERSHIPS:

Invitee to the Board Committees

DIRECTORSHIPS:

Denel Aerostructures

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Finance in the manufacturing and projects management sectors, corporate governance and strategy formulation

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL



MR KHOHLONG WILLIAM HLAKOANE
(52)

GROUP CHIEF OPERATIONS OFFICER

Appointed Acting Chief Executive Officer (DLS)

BSc; BSc Eng.; MBA

DENEL BOARD COMMITTEE MEMBERSHIPS:

None.

DIRECTORSHIP:

50K Investments (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Engineering Management and System Engineering, Mining Engineering, Rail and Energy, Business acumen. Business Strategy and Operations. Strategy development. Business Turnarounds. Corporate and Project Finance. Continuous Improvement. Supply Chain Management. Risk Management. Maintenance Management. Operations Management. Project Management & Execution.



PHALADI PETJE
(59)

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

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

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Strategic planning, business development and business process re-engineering.

Appointed Chief Executive Officer in May 2013.



BRIDGET SALO
(48)

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

MPA (Public Administration) BPA Hons (Public Administration), Executive leadership programme

DIRECTORSHIPS:

None.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE:

Business management, human resources management and executive leadership experience.

Appointed Chief Executive Officer in April 2020.

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL



SIPHO KHOZA
(53)

**Acting CHIEF EXECUTIVE OFFICER:
DENEL DYNAMICS**

Postgraduate Diploma Management
Practice

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:**

Programs and contracts.

Appointed Acting Chief Executive
Officer in November 2022.



DR DAWIE ROOS
(53)

**ACTING CHIEF EXECUTIVE
OFFICER: INTEGRATED SYSTEM
SOLUTIONS**

BEng (Electrical and Electronic), MEng
(Power Engineering) DEng (Engineering
Management)

DIRECTORSHIPS:

Aquilla Extreme Adventure

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:**

Engineering and Business

Appointed Acting Chief Executive
Officer in June 2021.

CORPORATE GOVERNANCE

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

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

The Board consists of the following committees:

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

Further to this Denel has the following forums and committees supporting the Board

- Business Development Forum

SHAREHOLDER		
DENEL BOARD		COMPANY SECRETARY
Audit and Risk Committee	Social and Ethics Committee	Personnel, Remuneration and Transformation Committee

DENEL BOARD OF DIRECTORS

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

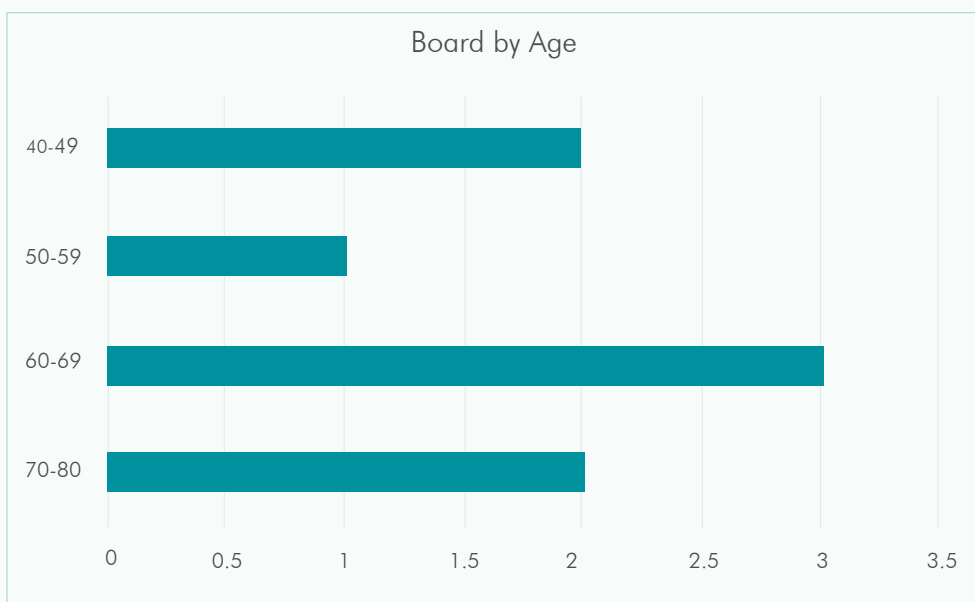
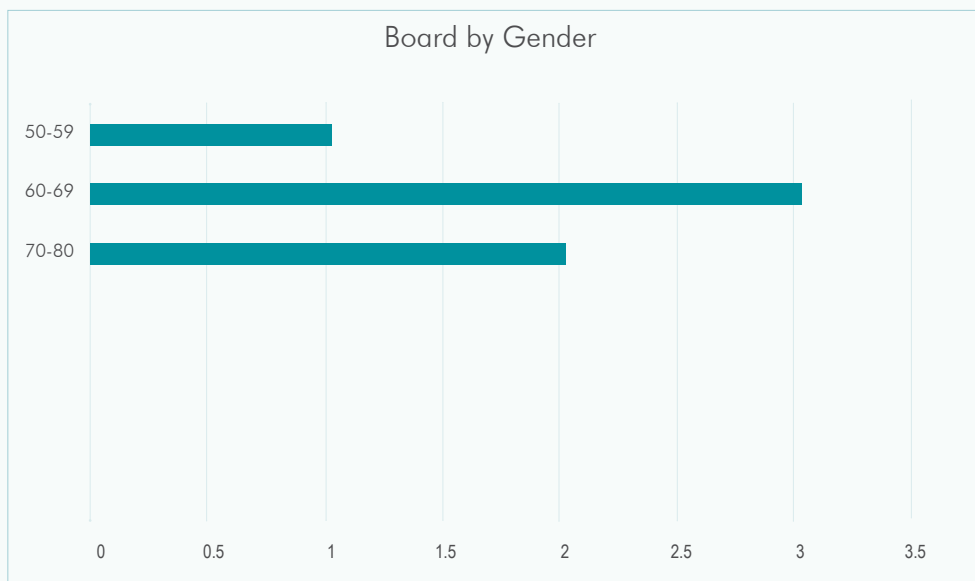
The Board plays a critical role in strategy planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie Denel's values, culture and processes. The group is managed in an efficient, accountable, transparent and ethical manner. This ethos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

RESPONSIBILITY AND ACCOUNTABILITY

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

COMPOSITION OF THE BOARD

The Denel group has a unitary Board, comprising two ex-officio directors, the GCEO and the GCFO both acting, as well as six independent non-executive directors. The company supports the principles of gender diversity at Board level. Collectively, the Board believes the current mix of knowledge, skill and experience meets the requirements to lead the company effectively, but would be advanced by adding directors with skills in engineering and programme management.



APPOINTMENT AND RETIREMENT OF DIRECTORS

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

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

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

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

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

It is incumbent upon the Board to act in the best interest of the company at all times, as guided by the King IV report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is regularly considered. This process creates value for the group and its stakeholders and ensures greater accountability.

MANAGING CONFLICT OF INTEREST

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

BOARD INDUCTION AND SHARING OF INFORMATION

Given that Denel operates in a highly technical environment, a comprehensive induction for new directors assists them in acquiring a greater understanding of Denel's business operations, its range of products and services, as well as the manner in which these integrate into defence systems. As such, they need to appreciate the specific legislative framework applicable to the group as a defence manufacturer, as well as the business risks, governance processes and delegation of authority. It further implies that directors are continuously briefed on relevant new legislation and regulations. Quarterly reports were circulated to directors for their approval to keep them abreast of developments during and outside of scheduled Board meetings.

GROUP COMPANY SECRETARY

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

BOARD MEETINGS

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

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

BOARD MEMBER	Total	Q1 (April – June 2023)			Q2 (July – Sep.2023)		Q3(Oct.-Dec.2023			Q4(Jan. – Mar. 2024)	
		25 April 2023	31 May 2023	Special 26 June 2023	7 July 2023	Special 11 July 2023	Special 6 Oct. 2023	30 Oct. 2023	23 Nov. 2023	30 Jan. 2024	28 Feb. 2024
Mrs GT Serobe (Interim Chairperson)	10/10	√	√	√	√	√	√	√	√	√	√
Mr TH Magazi	10/10	√	√	√	√	√	√	√	√	√	√
Lt. Gen. TT Matanzima	10/10	√	√	√	√	√	√	√	√	√	√
Mr MM Mnisi	10/10	√	√	√	√	√	√	√	√	√	√
Ms AMSS Mokgabudi	8/10	√	√	A	√	√	√	√	A	√	√
Ms MMT Ramano	5/10	√	A	A	√	A	A	√	A	√	√
STANDING INVITEES											
Mr ML Kgobe	9/9	√	√	√	√	√	√	√	√	√	-
Ms T Sabela	10/10	√	√	√	√	√	√	√	√	√	√
Mr OT Monaheng	1/1	-	-	-	-	-	-	-	-	-	√

REMUNERATION STANDARDS

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

The following amounts were either paid or accrued to the non-executive directors for the period 1 April 2023 to 31 March 2024 in line with the remuneration approved at the 2020 AGM. The Company worked with the Shareholder in the implementation of the 2017 remuneration guidelines, which would be done in a phased approach.

Amounts paid to Non-Executive directors for the period 1 April 2023 to 31 March 2024

	Q1 (1 April – 30 June 2023)	Q2 (1 July – 30 Sept. 2023)	Q3 (Oct. – Dec. 2023)	Q4 (Jan. – Mar. 2024)
NON-EXECUTIVE DIRECTORS	R'			
Mrs GT Serobe	R240 540	240 540	240 540,00	240 540,00
Mr TH Magazi				
Board	25 176	56 898	122 178,35	95 449,60
Audit & Risk	21 337	52 057	21 337,00	56 857,90
PR&T	30 628	59 101	37 992,25	14 728,50
Social and Ethics	20 010	-	20 010,00	20 010,00
RDM				50 352,00
Lt Gen. (rtd) TT Matanzima				
Board	25 176	56 898	124 942,47	88 903,60
PR&T	20 010	38 991	22 737,75	2 182,00
Social and Ethics	30 628	-	30 628,00	30 628,00
Mr MM Mnisi				
Board	25 176	56 898	127 488,37	88 903,60
Audit & Risk	21 337	52 057	21 337,00	56 857,90
PR&T	20 010	38 991	24 919,75	9 819,70
Barij				50 352,00
Ms AMSS Mokgabudi				
Board	25 176	54 716	38 087,15	59 625,75
Audit & Risk	44 921	103 916	44 921,00	111 116,50
Social & Ethics	20 010	-	20 010,00	20 010,00
Hensoldt				75 528,00
Ms MMT Ramano				
Board	25 176	25 176	25 176,00	79 265,95
Audit & Risk	21 337	21 337	-	47 038,00
Sub total	R616 648	R857 576	922 306,00	1 198 169,00
EXECUTIVE DIRECTORS	R'			
Mr ML Kgobe	R775 718	R785 363	805 914,00	268 732,61
Ms T Sabela	R 484 686	R491 163	504 774,00	504 963,00
Mr OT Monaheng	-	-		522 002,00
Sub total	R1 260 401	R1 276 526	1 310 688,00	1 295 698,00
Total	R1 877 049	R2 134 102	2 232 994,00	2 493 867,00

BOARD COMMITTEES

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

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

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

AUDIT AND RISK COMMITTEE

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

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

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

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

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

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

AUDIT & RISK COMMITTEE MEETINGS

COMMITTEE MEMBER	Total	Q1 (April – June 2023)		Q2 (July - Sept 2023)		Q3 (Oct – Dec. 2023)	Q4 (Jan. – Mar. 2024)			
		19 April 2023	30 May 2023	Special 10 July 2023	26 July 2023	24 Oct. 2023	30 Jan. 2024	21 Feb. 2024	Special 26 Feb. 2024	Special 6 Mar. 2024
Ms AMSS Mokgabudi (chairperson)	9/9	√	√	√	√	√	√	√	√	√
Mr TH Magazi	9/9	√	√	√	√	√	√	√	√	√
Mr MM Mnisi	9/9	√	√	√	√	√	√	√	√	√
Ms MMT Ramano	4/9	√	A	A	√	A	A	√	A	√
STANDING INVITEES										
Mr ML Kgobe	5/6	√	√	T	√	√	√	-	-	-
Ms T Sabela	9/9	√	√	√	√	√	√	√	√	√
Mr OT Monaheng ¹	3/3	-	-	-	-	-	-	√	√	√

A = Apology

T= Travelling

¹= Appointed GCEO on 14 February 2024

SOCIAL AND ETHICS COMMITTEE

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

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

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

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

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

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

SOCIAL AND ETHICS COMMITTEE

		Q1 (April – June 2023)	Q2 (July - Sept. 2023)	Q3 (Oct. – Dec. 2023)	Q4 (Jan. – Mar. 2024)
COMMITTEE MEMBER	Total	17 Apr. 2023	No Meetings	19 Oct. 2023	13 Feb, 2024
Lt. Gen. TT Matanzima (Chairperson)	3/3	√	-	√	√
Mr TH Magazi	3/3	√	-	√	√
Ms AMSS Mokgabudi	3/3	√	-	√	√
STANDING INVITEES					
Mr ML Kgobe	3/3	√	-	√	√
Ms T Sabela	3/3	√	-	√	√
Mr OT Monaheng ¹		-	-	-	

A = Apology

T= Travelling

¹= Appointed GCEO on 14 February 2024

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

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

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

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

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

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

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

Key issues considered by the Committee during the year included the consideration of a retention strategy, transformation and skills development, HR and remuneration policies, succession planning and performance contracts.

PERSONNEL, REMUNERATION, AND TRANSFORMATION COMMITTEE

COMMITTEE MEMBER	Total	Q1 (April – June 2023)			Q2 (July - Sept. 2023)					Q3 (Oct. – Dec. 2023)			Q4 (Jan. – Mar. 2024)
		17 Apr. 2023	Special 17 May 2023	Special 26 June 2023	Special 6 July 2023	20 July 2023	Special 25 July 2023	Special 21 Aug. 2023	Special 4 Sept. 2023	19 Oct. 2023	Special 22 Nov. 2023	Special 13 Dec. 2023	Special 21 Feb. 2024
Mr TH Magazi (Chairperson)	12/12	√	√	√	√	√	√	√	√	√	√	√	√
Lt. Gen. TT Matanzima	10/12	√	A	√	√	√	√	√	√	√	√	A	√
Mr MM Mnisi	12/12	√	√	√	√	√	√	√	√	√	√	√	√
STANDING INVITEES													
Mr ML Kgobe	7/7	√	-	√	√	√	-	-	-	√	√	√	-
Ms T Sabela	8/8	√	-	√	√	√	-	-	-	√	√	√	√
Mr OT Monaheng ¹	1/1	-	-	-	-	-	-	-	-	-	-	-	√

A = Apology

T= Travelling

¹ = Appointed GCEO on 14 February 2024

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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

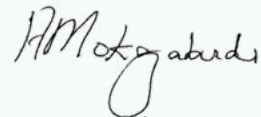


Company Secretary

DIRECTOR'S APPROVAL

The directors are of the opinion that the consolidated annual financial statements fairly present the financial position of Denel SOC Ltd and its subsidiaries and the results of their operations and cash flows for the year ended 31 March 2024.

The consolidated annual financial statements of Denel SOC Ltd for the year ended 31 March 2024, as set out on pages 64 to 144, have been prepared under the supervision of Mr ML Mukwevho CA (SA) and were approved by the board of directors on 19 November 2025 in terms of the Companies Act and the PFMA, and are signed on their behalf by:



Group Chief Executive Officer



Interim Chairperson of the Board



A decorative graphic consisting of several concentric circles of varying radii. The circles are drawn with thin white lines. Small white and dark teal dots are placed at various points along the circumference of these circles, connected by short white line segments, creating a network-like or orbital pattern. The background is a solid teal color with a large, semi-transparent teal shape in the center that contains the text and the decorative graphic.

SECTION 4

CONSOLIDATED
ANNUAL FINANCIAL
STATEMENTS

DIRECTORS' REPORT

The directors have pleasure in submitting their report on the annual financial statements of Denel SOC Ltd and the group for the year ended 31 March 2024.

1. Directorate

The directors in office at the date of this report are as follows:

Directors	Office	Designation
Matodzi Lawrence Mukwevho	GCFO	Executive Director
Monaheng Othniel Tsepo	GCEO	Executive Director
Magazi Thamsanqa Harold		Non-Executive Director
Matanzima Temba Templeton		Non-Executive Director
Mnisi Mandla Martin		Non-Executive Director
Mokgabudi Audrey Matshidiso Shalang Selomagae		Non-Executive Director
Ramano Mmakeaya Magoro Tryphosa		Non-Executive Director

2. Subsidiaries and associates companies

Details of material interests in subsidiary companies, associates and joint arrangements are presented in the consolidated annual financial statements in notes 6 and 7.

There were no significant acquisitions or divestitures during the year ended 31 March 2024.

3. Shareholder

The group's shareholder is Department of Public Enterprise which holds 100% of the group's equity. The Department of Public Enterprise represents the government of the Republic of South Africa.

4. Events after the reporting period

Changes in Shareholder

On Monday, 26 August 2024, The President Mr MC Ramaphosa assigned the responsibility for Denel SOC Ltd to the Minister of Defence and Military Veterans. This was undertaken in terms of Section 97 of the Constitution of the Republic of South Africa of 1996. The full transfer of the administration, powers and functions of the Minister of Defence and Military Veterans over Denel SOC Ltd will be completed by 31 March 2025. The effect of this is that Denel SOC Ltd's shareholder is the Department of Defence and Military Veterans as from 01 April 2025.

Appointment of the CFO and Other Group Executives

The Board appointed Mr Matodzi Lawrence Mukwevho as a Group Chief Financial Officer (GCFO) with effect from 01 July 2024. His appointment is critical in strengthening the executive management capacity of the company. Mr Mukwevho's appointment is important in restoring Denel's reputation and rebuilding the credibility of the company's leadership with stakeholders. In addition, this appointment will help build and strengthen a sound internal financial control environment which will enable Denel to restore its position as a strategic national asset and credible industry leader to customers, suppliers, employees, competitors, financial institutions and other key stakeholders. A Group Internal Audit Executive (May 2024), Group HR Executive (August 2024), Group Executives Divisions (September to November 2024) and a Group Commercial Executive (November 2024) were also appointed after the 31 March 2024.

ICT Challenges

Denel experienced network challenges in and around 12 July 2024 due to unauthorised access to the company's ICT systems. As a result, Denel experienced data loss that impacted the compilation of the Annual Financial Statements. This unauthorised access is subject to ongoing investigation by the relevant government authorities.

Recall of Guarantees by Armscor and settlement agreement with ABSA Ltd

Denel has advanced payment guarantees on Project Hoefyster with Armscor, ABSA, FNB and Guardrisk. These guarantees are for advance payments made by Armscor on phase 2 of the project. Armscor recalled the ABSA guarantee which was due to expire on 30 September 2024. The guarantee was for R469 339 247, with a cash collateral of R302 310 303. Denel has entered into a settlement and acknowledgement of debt agreement with ABSA bank for repayment of R167 028 944.23 in twenty-four equal monthly installments from 30 November 2024.

Settlement agreement with Nedbank Ltd

Denel has debt owing and payable to Nedbank Ltd under the Facility Letter, the Equity Advisory Agreement, the Property Advisory Agreement, the overdrawn balance on current account and Denel's utilisation of travel card facilities. Denel entered into a settlement agreement with Nedbank with effect from 13 December 2024. The agreement provides that Denel will repay Nedbank twelve consecutive installments.

5. Auditors

The Auditor General continued in office as auditors for the company and its subsidiaries for 2024 financial year.

At the AGM, the shareholders will be requested to reappoint the Auditor as the independent external auditors of the company for the 2025 financial year.

6. Secretary

The company secretary is Ms Maryna Gie.

Postal address: Denel Corporate Office
Nellmapius Drive
Irene
Centurion
0046

Business address: Denel Corporate Office
Nellmapius Drive
Irene
Centurion
0046

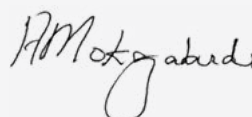
7. PFMA Compliance

Section 55(2)(b)(i) of the PFMA requires the particulars of any irregular, fruitless and wasteful expenditure, as well as material losses due to criminal conduct, to be disclosed in the annual financial statements. The group identified and reported irregular expenditure of R 3.1bn (2022/23: R 3.3bn). The Board requested management to conduct a full audit of all material supply chain purchases and to review the irregular expenditure identified. Furthermore, the implementation of an updated supply chain policy and procedures has reduced irregular expenditure recognised in 2022/23. This has encouraged the Board, while it still has to consider possible condonement and actions to be taken against individuals not found to have followed the policy and legislation.

8. Preparation of Annual Financial Statements

The annual financial statements set out on pages 64 to 144, which have been prepared on the going concern basis, were approved by the Board on 30 November 2024, and were signed on its behalf by:

Approval of financial statements



Ms AM Mokgabudi

Interim Chairperson of the Board



Mr OT Monaheng

Group Chief Executive Officer

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (the Committee) presents this report for the financial year that ended on 31 March 2024 in terms of the requirements of the Public Finance Management Act (PFMA), Section 94(7) (f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa.

The role of the Committee page 43 is defined in its mandate and includes its statutory duties; and assistance to the Board with the oversight of financial and non-financial reporting and disclosure, internal control system, internal and external audit functions, risk management, and combined assurance including information technology and governance.

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

Audit and Risk Committee Roles and Responsibilities

The composition and attendance of the members of the committee is as follows:

COMMITTEE MEMBER	Total	Q1 (April 2023 – June 2023)		Q2 (July 2023 – Sept 2023)		Q3 (Oct 2023- Dec 2023)	Q4 (Jan – March 2024)			
		19 Apr 2023	30 May 2023	Special 10 July 2023	26 July 2023	24 Oct. 2023	30 Jan, 2024	21 Feb 2024	Special 26 Feb 2024	Special 6 Mar 2024
Ms AMSS Mokgabudi (chairperson)	9/9	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr TH Magazi	9/9	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr MM Mnisi	9/9	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms MMT Ramano	4/9	✓	A	A	✓	A	A	✓	A	✓
STANDING INVITEES										
Mr ML Kgobe	5/6	✓	✓	T	✓	✓	✓	-	-	-
Ms T Sabela	9/9	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr OT Monaheng ¹	3/3	-	-	-	-	-	-	✓	✓	✓

A = Apology

T= Travelling

¹= Appointed GCEO on 14 February 2024

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

Internal Controls

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

The Committee has observed that the overall control environment, including internal financial controls, has not improved during the year under review. There are still concerns about the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. The impact of the prior years' challenges continues to be felt in the current financial year, with the control environment being severely constrained. This is notwithstanding efforts made throughout the business to improve the control environment.

The foundation of an effective system of internal control is directly impacted by people, technology and processes. Whilst there are appropriately designed processes within Denel, the ability to attract and retain the needed skills remained a challenge in the current financial year. The continued reliance on manual processes and legacy ERP systems to support business activity has impeded improvement in the control environment.

The Committee concluded and advised the Board that a significant improvement in the entire control environment is still required. The effectiveness of the implemented measures to improve the control environment continues to be an area of focus.

Going Concern

The Committee reviewed management's assessment of the going-concern premise of the group and the company, and recommended to the Board that the group and the company should be considered a going concern for the foreseeable future. In performing its assessment, the Committee considered the cashflow projections, performance on key projects and impact of the receipt of the recapitalisation and the stalled plan to sell non-core assets. The Committee also considered management progress in implementing the turnaround strategy including the order pipeline. Furthermore, the committee considered the support Denel received from the Shareholder and National Treasury as well as its strategic importance to the Defence sector in the country. The aspects considered in the going concern assessment have been detailed on note 41 on page 146.

External Auditors

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

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2024 financial year.

Financial Statements and accounting practices

The Committee reviewed the consolidated annual financial statements of the group and company as well as the accounting policies and practices of the group. The committee considered the key judgements, estimates and accounting for significant transactions in the annual financial statements. The Committee is severely concerned by the repeat disclaimer of the Auditor General on the Annual Financial Statements. Given the continued challenges, a thorough review of the findings and concrete remedial plans will be crucial to improve the audit opinion. This will continue as a key action during 2024/25.

Disclaimer Audit Opinion

The Committee has noted the AGSA Disclaimer Audit Opinion and noted its root causes being as follows:

Uncertainty on the Going Concern status

The AGSA raised concerns on the delays in the implementation of the turnaround strategy, the robustness of Denel's plans to execute its operational plans and subsequently mitigate the funding constraints factored in its forecasts. This has led to there being material uncertainties to Denel's going concern status together with Denel's inability to support some of its key assumptions made in its model contributing to the audit opinion

Leadership

The accounting authority did not to adequately exercise oversight over financial and performance reporting, compliance, and related internal controls. Additionally, leadership did not ensure the development, implementation and effective monitoring of action plans aimed at addressing internal control deficiencies identified during the audit process.

Financial and Performance Management

There is a shortage of adequate skills and internal capacity to prepare credible financial statements. Furthermore, senior management did not implement proper record-keeping practices in a timely manner, limiting access to complete, relevant, and accurate information needed to support financial and performance reporting. Management also failed to ensure the preparation of accurate and complete financial and performance reports.

Information Technology Controls

Management did not design or implement formal controls over IT systems to ensure the reliability, availability, accuracy, and protection of information.

Governance

The Board did not ensure that the audit committee effectively promoted accountability and service delivery by evaluating and monitoring responses to risks, and by overseeing the adequacy of the internal control environment. This includes oversight of financial and performance reporting, as well as compliance with applicable legislation. Reporting to the committee was deemed deficient throughout the period, hampered by lack of appropriate systems, processes and skilled personnel in key areas. Improvements in reporting are a key focus area for FY2024/2025.

Material Irregularity

In April 2025, whilst conducting its audit of the FY2024 Financial Statements, the Auditor General issued two material irregularities with details as follows:

- **Material Irregularity 1 Lack of credible Annual Financial Statements.** The nature of the irregularity is that the review of the annual financial statements indicated to the AGSA that there are ineffective financial and risk management controls to produce credible Annual Financial Statements.
- **Material Irregularity 2 Weak ICT Environment.** On 13 July 2024 Denel experienced unauthorised access to parts of its ICT network which impacted the compilation of the Annual Financial Statements. The incident is the subject of ongoing investigation by the relevant government authorities. Denel has since and continues to address vulnerabilities to fortify its network and ensure that data is fully restored.

The Board and the Audit and Risk Committee responded to these reported irregularities and the AGSA has issued a determination indicating its satisfaction on Denel's audit remedial plan and will regularly monitor progress and report accordingly.

Responses to the Root Causes of the Audit Opinion and Material Irregularities

The board accepts responsibility and accountability to develop remedial actions to address issues raised by the AGSA. Since the audit findings raised during FY2021 – FY2023 audit, remedial actions have been implemented. The board, as the Accounting Authority has:

- Appointed an experienced permanent Group CEO – OT Monaheng, as approved by the Minister of Public Enterprises;
- Re-established an Internal Audit (IA) function and appointed a Group Chief Audit Executive – M Phaliso. The IA is busy executing an Audit and Risk Committee approved plan. The execution of this plan has led to remedial actions and consequence management within the organisation;
- The board also appointed an experienced Group CFO – ML Mukwevho;
- The Group CEO, with oversight by the Human Resources subcommittee has appointed suitably skilled divisional executives for Aerospace, Integrated Systems Solutions and Landward;
- The board has ensured that the organisation operates with an appropriately approved Shareholder Compact and has reported on this as required by PFMA;
- The GCEO and his direct reports have Performance Agreements which are aligned with the Shareholder Compact and the Turnaround plan;
- Appointment of the Group ICT manager who is responsible for the formulation and implementation of the ICT strategy including remediation of the AGSA findings;
- Ensured the release of the balance of the Recapitalisation Funds; and
- Responded to the AGSA with respect to the development and implementation of culture shift strategies. Management have tabled an Internal Control Remedial Plan that is monitored by the Committee on a bi-monthly basis.

Expertise and knowledge of the GCFO and Finance function.

The Committee reviewed the financial effectiveness of the finance function and concluded that there remains a capacity gap with the appropriate skills across Denel. The Committee further noted the Auditor General's report in its commentary about the improvements required to achieve proper record keeping, and regular processing and reconciling of transactions. The Committee has recommended targeted capacity-building interventions, supported by recruitment of appropriately skilled personnel and strengthening of leadership within the finance function. The Committee will regularly review and monitor management's plans to address these deficiencies.

Key focus areas of the meetings:

The meetings held during the reporting period entailed the following key discussions:

- Quarterly report focusing on the performance of the operating entities and the impact it has on liquidity;
- The progress on the implementation of audit remediations against management's audit fix plan;
- Liquidity and funding challenges and the approach to address the associated risk;
- The status of the internal control environment remains an area of concern;
- The finance function, its expertise and the management remediation plans; and
- Monitoring of the financial, ICT and operational risks.

Key focus areas for the 2024/25 financial year:

- Monitor improvement of the internal control environment as it remains an area of concern;
- Capacitating the Finance and ICT functions with appropriately skilled personnel;
- Monitor execution of the turnaround plan;
- Monitor improvement on operational delivery, revenue generation and liquidity;
- Monitor improvement on regulatory compliance;
- Monitor improvement of the ICT control environment;
- Review and monitor the remedial plans of the external audit findings;
- Continuous monitoring of the risk exposure;
- Risk Management;
- Internal Audit;
- Annual Financial Statements; and
- Subsequent Events.

Internal audit

During the year under review, the Committee recommended an internal audit hybrid model and finalised the appointment of the Chief Audit Executive. In FY2024, the Internal audit function at its infancy, the committee considered the internal audit charter, annual audit plan, alignment of the audit plan with Company risks and the independence and the effectiveness of the function. The Committee has reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to internal audit findings and considered management's responses to adverse internal audit findings.

Risk Governance

The Committee provides risk management support to the Board and oversees the development, assessment and review of risk policies and all risk management related matters including the integrity of the risk control processes, systems and insurance. The committee assesses any significant risk control failings or weaknesses and their potential impact and ensures that appropriate action is taken to remedy such risks including reducing opportunities for fraud and other operational losses.

Subsequent Events

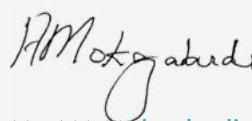
Refer to note 42 page 149-150 for details on events after the reporting period.

Conclusion

The Committee has evaluated the financial statements of Denel and the Group for the year ending 31 March 2024 and considers that they comply, other than the matters disclaimed in the external auditor's report, with the requirements of the Companies Act, the PFMA and the International Financial Reporting Standards. Whilst recognising the challenges that Denel faces in respect financial stability and the mitigation plans thereof, the committee has recommended to the Board that Denel be reported as a going concern.

The Committee recommended the consolidated Annual Financial Statements / Annual Report for the year ended 31 March 2024 for approval by the Board on 19 November 2025.

On behalf of the Audit and Risk Committee.



Ms AM Mokgabudi

Chairperson of the Audit and Risk Committee

REPORT OF THE AUDITOR GENERAL TO PARLIAMENT ON DENEL SOC LIMITED

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of Denel SOC Limited (Denel) and its subsidiaries (the group) set out on pages 64 to 144, which comprise the consolidated and separate statements of financial position as at 31 March 2024, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for disclaimer of opinion

Going concern

3. International Accounting Standards (IAS 1) – Presentation of financial statements – requires management to assess a group's ability to continue as a going concern when preparing financial statements. As indicated in note 41 to the consolidated and separate financial statements, the group stated that the consolidated and separate financial statements have been prepared on a going concern basis. I was unable to obtain sufficient and appropriate audit evidence to support management's going concern assessment. Therefore, I am unable to confirm whether it is appropriate to prepare the consolidated and separate financial statements using the going concern basis of accounting. I was unable to confirm the going concern disclosure by alternative means. Consequently, I could not determine whether adjustments were required to the consolidated and separate financial statements and the going concern disclosure note in note 41 to the consolidated and separate financial statements.

Preparation of the separate and consolidated financial statements

4. I was unable to obtain sufficient appropriate audit evidence regarding the consolidation of Denel Vehicle Systems (DVS) subsidiary, as neither the financial statements nor the underlying records of this subsidiary were presented for audit purposes. In addition, I was unable to obtain sufficient appropriate audit evidence relating to the elimination of intercompany transactions and reclassification associated with the DVS, as mentioned. I was unable to confirm the consolidation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the consolidated financial statements.

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the underlying accounting records. I was unable to confirm property, plant and equipment by alternative means.
6. During 2023, the group did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date, as required by IAS 16 – Property, plant and equipment. As a result, some assets reached zero book values while they were still in use. In addition, the group did not present the impact of changes in estimates relating to useful lives and residual values, as required by IAS 8 – Accounting policies, changes in accounting, estimates and errors in the consolidated and separate financial statements. Furthermore, the group did not assess property, plant and equipment for indicators of impairment in accordance with IAS 36 – Impairment of assets. I was unable to determine the impact on the property, plant and equipment amount, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the property, plant and equipment made for the current period.

7. Consequently, I was unable to determine the impact on the following items in note 2 to the consolidated and separate financial statements, respectively, as it was impracticable to do so:
- Property, plant and equipment stated at R582 million (2022-23: R616 million; 2021-22: R650 million) and R475 million (2022-23: R493 million; 2021-22: R520 million).
 - Depreciation stated at R33 million (2022-23: R25 million; 2021-22: R29 million) and R28 million (2022-23: R32 million; 2021-22: R13 million).
 - Impairment loss stated at R24 million (2022-23: R4 million; 2021-22: R5 million) and R0 million (2022-23: R2 million; 2021-22: R0 million).

Right-of-use assets

8. I was unable to obtain sufficient appropriate audit evidence for the right of use assets due to the status of the underlying accounting records. I was unable to confirm the right of use assets by alternative means.
9. In addition, the group did not assess right-of-use assets for indicators of impairment in accordance with IAS 36 – Impairment of assets. I could not confirm the right of use assets by alternative means.
10. Furthermore, during 2022, the group did not measure right of use of assets in accordance with the requirements of International Financial Reporting Standards (IFRS) 16 – Leases. Right-of-use assets were not calculated using the present value of remaining lease payments, resulting in right-of-use assets being overstated by R180 million for 2021-22. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the right-of-use asset for the current period.
11. Consequently, I was unable to determine whether any further adjustments were necessary to right-of-use asset stated at R116 million (2022-23: R114 million; 2021-22: R151 million) and R116 million (2022-23: R114 million; 2021-22: R151 million) in the corresponding figures in note 3 to the consolidated and separate financial statements.

Intangible assets

12. I was unable to obtain sufficient appropriate audit evidence for intangible assets due to a lack of proper recordkeeping and I could not confirm the intangible assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to intangible assets stated at R45 million (2022-23: R54 million; 2021-22: R62 million) and R16 million (2022-23: R24 million; 2021-22: R32 million) in note 5 to the consolidated and separate financial statements.

Investment in subsidiaries

13. I was unable to obtain sufficient appropriate audit evidence for the investment in subsidiaries as the group did not have adequate systems in place to ensure that the impairment of investment in subsidiaries was supported by sufficient appropriate audit evidence. I was unable to confirm the investment in subsidiaries by alternative means. Consequently, I was unable to determine the impact on the investment in subsidiaries, stated at R0 million and R0 million in note 6 to the consolidated and separate financial statements.

Investment in associated companies

14. The group did not correctly account for the investment in associates in accordance with the requirements of IAS 28 – Investments in associates and joint ventures, as the group did not account for the transfer of assets held for sale to investment in associates retrospectively as required by the IAS 28. In addition, the group did not correctly measure the value of the transfer of assets held for sale to investment in associates in accordance with the requirements of IFRS 5, Non-current assets held for sale and discontinued operations.
15. The group did not correctly account for gains and losses on intragroup transactions between Denel and the associate companies, as required by IAS 28 – Investments in associates and joint ventures – due to the incorrect application of IAS 28 principles, which resulted in investment in associates disclosed in note 7 to the consolidated financial statements being overstated by R123 million (2022-23: R123 million; 2021-22: R123 million).

16. Consequently, I was unable to determine the impact on the investment in associates, stated at R1 239 million (2022-23: R1 178 million; 2021-22: R1 022 million) and R427 million in note 7 to the consolidated and separate financial statements.

Deferred tax and taxation

17. I was unable to obtain sufficient appropriate evidence for deferred tax and taxation due to inadequate controls to reconcile the financial statements to the underlying accounting records. In addition, I was unable to confirm whether it was probable that the group would generate taxable profits profit against which deductible temporary differences can be used.

18. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:

- Deferred tax asset stated at R3 million (2022-23: R356 million; 2021-22: R246 million) and R3 million (2022-23: R90 million; 2021-22: R0 million) in note 12 to the consolidated and separate financial statements.
- Deferred tax liability stated at R3 million (2022-23: R4 million; 2021-22: R2 million) and R3 million (2022-23: R4 million; 2021-22: R2 million) in note 12 to the consolidated and separate financial statements.
- Taxation stated at -R18 million (2022-23: -R12 million; 2021-22: R34 million) and R0 million (2022-23: -R4 million; 2021-22: R0 million) in note 32 to the consolidated and separate financial statements.

Inventories

19. I was unable to obtain sufficient appropriate audit evidence for inventories due to the status of the underlying accounting records. I was unable to confirm inventories by alternative means.

20. In addition, during 2023, the group did not correctly apply the principles of IAS 2 – Inventories – relating to standard costing as the standard costing variances were calculated incorrectly and standard cost set did not approximate the actual amounts. I was unable to determine the value of the misstatement, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended

31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the inventories for the current period.

21. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:

- Inventories stated at R1 895 million (2022-23: R1 880 million; 2021-22: R1 436 million) and R1 894 million (2022-23: R1 801 million; 2021-22: R1 366 million) in note 13 to the consolidated and separate financial statements.
- Cost of sales stated at R985 million (2022-23: R998 million; 2021-22: R1 166 million) and R970 million (2022-23: R998 million; 2021-22: R1 116 million) in note 26 to the consolidated and separate financial statements.

Trade and other receivables

22. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables due to the status of the underlying accounting records. In addition, I was unable to obtain sufficient and appropriate evidence that the group adequately accounted for the impairment of trade receivable in accordance with IFRS 9, Financial Instruments due to the status of the underlying accounting records. I could not confirm trade and other receivables by alternative means. Consequently, I was unable to determine whether adjustments were necessary to trade and other receivables stated at R567 million (2022-23: R510 million; 2021-22: R921 million) and R573 million (2022-2023: R511 million; 2021-22: R765 million) in note 9 to the consolidated and separate financial statements.

Contract asset

23. I was unable to obtain sufficient appropriate audit evidence for contract asset due to the status of the underlying accounting records. I could not confirm the contract assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contract assets stated at R671 million (2022-23: R590 million; 2021-22: R558 million) and R671 million (2022-23: R579 million and 2021-22: R547 million) in note 10 to the consolidated and separate financial statements.

Prepayments made

24. I was unable to obtain sufficient appropriate audit evidence for prepayments made due to the status of the underlying accounting records. I was unable to confirm prepayments made by alternative means.
25. In addition, during 2023, the group did not correctly recognise and measure prepayments made due to inadequate controls to reconcile financial statements to underlying transactions and records, as well as incorrect application of IFRS 9 – Financial instruments. Prepayments made were not assessed for expected credit losses in accordance with IFRS 9 – Financial instruments. Furthermore, the balance included transactions that do not meet the requirements of prepayments made were not always derecognised when utilised. I was unable to determine the value of the misstatement, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the prepayments made for the current period.
26. Consequently, I was unable to determine whether any adjustments were necessary to the prepayments made stated at R158 million (2022-23: R213 million; 2021-22: R152 million) and R156 million (2022-23: R232 million and 2021-22: R167 million) in the consolidated and separate financial statements.

Loans receivables

27. During 2023, Denel did not assess loans receivable for the expected credit losses, as required by IFRS 9 – Financial instruments. I was unable to determine the value of the misstatement, as it was impracticable to do so. Consequently I was unable to determine whether any adjustment relating to loans receivables of R168 million as disclosed in note 8 to the separate financial statements for the prior year was necessary. My audit opinion on the separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year separate financial statements is also modified because of the possible effect of this matter on the comparability of loans receivables for the current period.

Cash and cash equivalents

28. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the underlying accounting records. I was unable to confirm cash and cash equivalents by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence that foreign bank and the local bank accounts included in cash and cash equivalents had been properly accounted for due to the status of the accounting records. I was unable to confirm these bank accounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R1 435 million (2022-23: R3 770 million; 2021-22: R507 million) and R1 429 million (2022-23: R3 765 million; 2021-22: R502 million) in note 15 to the consolidated and separate financial statements.

Reserves

29. During 2022, I was unable to obtain sufficient appropriate evidence for reserves due to inadequate controls to reconcile the financial statements to the underlying accounting records. I could not confirm the reserves by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the reserves stated at 2021-22: R77 million to the corresponding figures in note 17 to the consolidated financial statements. My audit opinion on the consolidated financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the reserves for the current period.

Trade and other payables

30. I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to the status of the underlying accounting records. I was unable to confirm trade and other payables by alternative means.
31. In addition, during 2022, the group did not have adequate internal control systems to recognise and account for all the trade and other payables transactions, as required by IAS 1 – Presentation of financial statements and Conceptual framework resulting to trade and other payables overstated

by 2021-22:R87 million. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the trade and other payables for the current period.

32. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables stated at R1 219 million (2022-23: R2 596 million; 2021-22: R2 437 million) and R1 121 million (2022-23: R2 459 million; 2021-22: R2 013 million) in note 22 to the consolidated and separate financial statements.

Borrowings

33. I was unable to obtain sufficient appropriate audit evidence for borrowings due to the status of the underlying accounting records. I was unable to confirm borrowings by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to borrowings stated at R122 million (2022-23: R278 million; 2021-22: R446 million) and R153 million (2022-23: R296 million; 2021-22: R473 million) in note 18 to the consolidated and separate financial statements.

Contract liabilities

34. I was unable to obtain sufficient appropriate audit evidence for contract liabilities due to the status of recordkeeping and the underlying accounting records. I was unable to confirm contract liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contract liabilities stated at R1 492 million (2022-23: R1 432 million; 2021-22: R1 398 million) and R1 491 million (2022-23: R1 405 million; 2021-22: R1 364 million) in note 19 to the consolidated and separate financial statements.

Advance payments received

35. I was unable to obtain sufficient appropriate audit evidence for advance payments received due to the status of the underlying accounting records. I was unable to confirm the advance payments received by alternative means.

36. In addition, during 2022, the group did not have adequate internal control systems to recognise and account for all the advance payments received transactions, as required by IAS 1 – *Presentation of financial statements and conceptual framework* – resulting to advance payments received understated by 2021-22: R98 million. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and current financial statements is also modified because of the possible effect of this matter on the comparability of the advance payments received for the current period.

37. Consequently, I was unable to determine whether any adjustments were necessary to the advance payments received stated at R2 406 million (2022-23: R2 446 million; 2021-22: R2 572 million) in note 21 to the consolidated financial statements.

Provisions

38. I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of recordkeeping. I could not confirm the provisions by alternative means.

39. In addition, during 2023, the group did not have adequate internal control systems to reconcile the financial statements to the underlying accounting records and account for all the provisions, as required by IAS 37 – *Provisions, contingent assets and contingent liabilities* – resulting in understatement of provisions included in the consolidated and separate financial statements. I was unable to determine the value of the misstatement, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the provisions for the current period.

40. Consequently, I was unable to determine whether any further adjustments were necessary to provisions stated at R480 million (2022-23: R512 million; 2021-22: R551 million) and R480 million (2022-23: R422 million; 2021-22: R465 million) in the corresponding figures in note 20 to the consolidated and separate financial statements.

Lease liability

41. I was unable to obtain sufficient appropriate audit evidence for lease liability due to the status of the records keeping. I could not confirm the lease liability by alternative means.
42. In addition, during 2022, the group did not calculate lease liability using the present value of remaining lease payments, as required by IFRS 16, Leases, resulting in the lease liabilities being overstated by 2021-22: R116 million. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the lease liability for the current period.
43. Consequently, I was unable to determine whether any further adjustments were necessary to lease liability stated at R254 million (2022-23: R251 million; 2021-22: R180 million) and R254 million (2022-23: R251 million; 2021-22: R180 million) to the corresponding figures in note 3 to the consolidated and separate financial statements.

Revenue

44. I was unable to obtain sufficient appropriate audit evidence for revenue due to the status of the underlying accounting records. I was unable to confirm revenue by alternative means.
45. The group did not adequately disclose the accounting policy note 1.5 to the consolidated and separate financial statements relating to the revenue transaction price consistently to the group's accounting for significant financing component on revenue and contract liabilities, as required by IFRS 15 – Revenue from contracts with customers.
46. In addition, during 2023, the group did not classify the revenue from sales of goods: foreign and interest revenue in accordance with IFRS 15 – Revenue from contracts with customers. Revenue from sale of goods: foreign is understated and interest revenue overstated by R344 million (2021-22: R263 million) and R330 million (2021-22: R281 million) in note 24 of the consolidated and separate financial statements. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly.

My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the revenue for the current period.

47. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively:
 - Revenue stated at R1 324 million (2022-23: R1 189 million; 2021-22: R1 317 million) and R1 313 million (2022-23: R1 159 million; 2021-22: R1 070 million) in note 24.
 - Cost of sales stated at R985 million (2022-23: R998 million; 2021-22: R1 166 million) and R970 million (2022-23: R998 million; 2021-22: R1 116 million) in note 26.
 - Trade and other payables stated at R1 219 million (2022-23: R2 596 million; 2021-22: R2 437 million) and R1 121 million (2022-23: R2 459 million; 2021-22: R2 013 million) in note 22.
 - Contract assets stated at R671 million (2022-23: R590 million; 2021-22: R558 million) and R671 million (2022-23: R579 million and 2021-22: R547 million) in note 10.
 - Segment reporting disclosure note 24 to the consolidated and separate financial statements, respectively.

Cost of sales and other operating expenditure

48. I was unable to obtain sufficient appropriate audit evidence for cost of sales and other operating expenses due to the status of the underlying accounting records. I could not confirm the cost of sales and other operating expenses by alternative means.
49. In addition, during 2023, the group did not classify and present cost of sales and other operating expenses, in terms of IAS 1 – Presentation of financial statements and Conceptual framework. I was unable to determine the cost of sales and other operating expenses by alternative means. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the cost of sales and other operating expenses for the current period.

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

- Cost of sales stated at R985 million (2022-23: R998 million; 2021-22: R1 166 million) and R970 million (2022-23: R998 million; 2021-22: R1 116 million) in note 26.
- Other operating expenses stated at R986 million (2022-23: R1 324 million; 2021-22: R1 055 million) and R1 237 million (2022-23: R1 248 million; 2021-20: R863 million).
- Trade and other payables stated at R1 219 million (2022-23: R2 596 million; 2021-22: R2 437 million) and R1 121 million (2022-23: R2 459 million; 2021-22: R2 013 million) in note 22.
- Accumulated loss stated at R13 472 million (2022-23: R12 539 million; 2021-22: R12 484 million) and R14 315 million (2021-22: R13 320 million; 2021-22: R13 277 million) in the consolidated and separate financial statements, respectively.

Other income

51. I was unable to obtain sufficient appropriate audit evidence for other income due to the status of recordkeeping and I could not confirm other income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other income stated at R300 million (2022-23: R1 437 million; 2021-22: R374 million) and R285 million (2022-23: R1 436 million; 2021-22: R382 million) in note 27 to the consolidated and separate financial statements.

Other operating gains/(losses)

52. I was unable to obtain sufficient appropriate audit evidence for other operating gains/(losses) due to the status of the underlying accounting records. I was unable to confirm other operating gains/(losses) by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other operating gains/(losses) stated at R141 million and R141 million in note 28 to the consolidated and separate financial statements.

Finance cost

53. I was unable to obtain sufficient appropriate audit evidence for finance cost due to the status of the underlying accounting records. I was unable to confirm finance cost by alternative means.

Consequently, I was unable to determine whether any adjustments were necessary to finance cost stated at R318 million (2022-23: R453 million; 2021-22: R374 million) and R311 million (2022-23: R452 million; 2021-22: R375 million) in note 31 to the consolidated and separate financial statements.

Net investment income

54. During 2022, I was unable to obtain sufficient appropriate audit evidence for investment income due to inadequate controls to reconcile the financial statements to the underlying accounting records. I could not confirm the investment income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment income stated at 2021-22: R12 million and 2021-22: R10 million in the corresponding figures in note 30 to the consolidated and separate financial statements. My audit opinion on consolidated and separate financial statements for the period ended 31 March 2023 was modified accordingly. My opinion on the current year consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the investment income for the current period.

Statement of cash flows

55. The group did not correctly calculate, prepare and disclose the cash flows statement, as required by IAS 7 – Statement of cash flows. There were multiple errors in determining cash flows in the consolidated and separate cash flow statement. I was unable to determine the full extent of the errors in the net cash flows as indicated below in the consolidated and separate cash flow statement, as it was impracticable to do so.

56. Consequently, I was unable to determine whether any adjustments to below were necessary.

- Net cash flows from operating activities stated at -R2 213 million (2022-23: -R71 million; 2021-22: -R91 million) and -R2 109 million (2022-23: -R16 million; 2021-22: -R57 million).
- Net cash flows from investing activities stated at -R5 million (2022-23: R30 million; 2021-22: -R21 million) and -R5 million (2022-23: -R39 million; 2021-22: -R17 million).

- Net cash flows from financing activities, stated at -R117 million (2022-23: R3 303 million; 2021-22: R63 million) and -R221 million (2022-23: R3 315 million; 2021-22: R71 million).

Segment reporting

57. I was unable to obtain sufficient appropriate audit evidence for the segment reporting amounts in note 24 to the consolidated and separate financial statements due to the status of the underlying accounting records. Consequently, I was unable to determine whether any adjustments were necessary to the segment reporting disclosure in note 24 to the consolidated and separate financial statements.

Prior period error

58. The group did not disclose all prior period errors restated on the comparative figures on note 39, as required by IAS 8 – Accounting policies, changes in accounting estimates and errors.
59. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed in note 39 to the consolidated and separate financial statements due to the status of the underlying accounting records. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 39 to the consolidated and separate financial statements.

Irregular expenditure

60. Section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999 (PFMA) requires the public entity to include particulars of irregular expenditure incurred in the notes to the financial statements. The group did not include all irregular expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of irregular expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so. In addition the entity did not present and disclose the irregular expenditure in line with the requirement of the National Treasury Instruction note.4 of 2022/2023.
61. Furthermore, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 43 to the consolidated and separate financial statements as the amount disclosed did not agree with the underlying accounting records.

I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure disclosed at R3 084 million (2022-23: R3 288 million and 2021-22: R3 270 million) and R0 million (2022-23: R3 297 million and 2021-22: R3 277 million) in note 43 to the consolidated and separate financial statements.

Fruitless expenditure

62. Section 55(2)(b)(i) of the PFMA requires the public entity to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The group did not include all fruitless and wasteful expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so. In addition the entity did not present and disclose the fruitless expenditure in line with the requirement of the National Treasury Instruction note.4 of 2022/2023.
63. Furthermore, I was unable to obtain sufficient appropriate audit evidence to confirm the fruitless and wasteful expenditure included in note 44 to the consolidated and separate financial statements due to the status of the underlying accounting records. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure disclosed at R6 million (2022-23: R0 million; 2021-22: R128 million) and R6 million (2022-23: R128 million; 2021-22: R128 million) in note 44 to the consolidated and separate financial statements.

Contingent liabilities

64. The group did not have adequate internal control systems to reconcile the financial statements to the underlying accounting records and account for all the contingent liabilities in accordance with requirements of IAS 37 – Provisions, contingent assets and contingent liabilities – resulting in the overstatement of contingent liabilities disclosed in the financial statements. I was unable to determine the value of misstatement, as it was impracticable to do so. In addition, the group did not disclose contingent liabilities accounting policy as required by IAS 1, Presentation of financial statements. I have not included the omitted information in the auditor's report as it is impracticable to do so.

65. The group did not adequately disclose the contingent liabilities in accordance with requirements of IAS 37, Provisions, contingent assets and contingent liabilities. The group did not disclose the brief description of the nature of contingent liability relating to guarantees, including an indication of any uncertainties relating to the amount and timing of any outflow thereof.
66. I was unable to obtain sufficient appropriate audit evidence for the contingent liabilities due to the status of recordkeeping. In addition, the group did not maintain accurate and complete records of the contractual information used to determine total guarantees, litigation, site restoration and counter trade information disclosed in note 36. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the contingent liabilities amounts disclosed in note 36 to the consolidated and separate financial statements.

Related parties

67. I was unable to obtain sufficient appropriate audit evidence for the related party transactions and balances due to the status of the underlying accounting records. I could not confirm these by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for the related party disclosure in note 37 of the consolidated and separate financial statements.

Financial Instruments and risk management

68. The group did not adequately disclose the financial instruments and risk management in accordance with IFRS 7 – Financial instruments – Disclosures and IAS 1 – Presentation of financial statements. The group did not adequately disclose the nature of and risks arising from financial instruments to which they were exposed during the period and at the end of the period, and how they were managing those risks, in the financial risk management note 40 to the consolidated and separate financial statements. The group did not disclose sensitivity analysis for market risks, nor the principles and methods used to arrive at the fair values and the effect of prior period errors. I have not included the omitted information in this auditor's report, as it was impracticable to do so.

69. In addition, I was unable to obtain sufficient appropriate audit evidence for the financial instruments and risk management disclosure due to the status of the underlying accounting records. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for the financial instruments and risk management in note disclosure in note 40 of the consolidated and separate financial statements.

Other matters

70. I draw attention to the matters below. My opinion is not modified in respect of these matter.

Merger of Denel Vehicle System Proprietary Limited, Denel Land Systems and Pretoria Metal Pressings into new Denel Landward division

71. The approved turnaround plan for the strategic restructuring of Denel SOC Limited includes the full disposal of Denel Vehicle System Proprietary Limited and incorporates it as part of the new Denel Landward division of Denel SOC Limited. Denel SOC Limited is currently embarking on a process to merge Denel Vehicle Systems Proprietary Limited with Denel Land Systems and Pretoria Metal Pressings to form the new Denel Landwards division of Denel SOC Limited.

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

72. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and Companies Act 71 of 2008; and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
73. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going

concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations or has no realistic alternative but to do so.

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

74. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
75. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

76. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objective presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
77. I could not perform the audit as the annual performance report was not prepared, as required by section 55(2)(a) of the PFMA.

Report on compliance with legislation

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

79. I performed procedures to test compliance with selected requirements in key legislation, in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
80. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
81. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and performance, annual report

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

Strategic planning and performance management

84. The corporate plan did not include key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives, as required by treasury regulation 29.1.1 (c).

Consequence management

85. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.
86. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

State-owned enterprise oversight and governance

87. I was unable to obtain sufficient appropriate audit evidence that members of the board disclosed any personal and/ or private business interest that may have existed in matters that served before the board, as required by section 50(3)(a) of the PFMA. This is due to the entity failing to submit records of declarations of interests for auditing.
88. Approved audited financial statements were not filed with the annual return within the prescribed period, as required by section 33(1)(a) of the Co Act and 30(2) of the Companies Regulation.

Revenue management

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

Expenditure management

90. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion, the value disclosed in note 43 of the financial statements does not reflect the full extent of the irregular expenditure incurred.
91. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer opinion, the amount of fruitless and wasteful expenditure disclosed in note 44 of the financial statements does not reflect the full extent

of the fruitless and wasteful expenditure incurred. Most of the fruitless and wasteful expenditure disclosed in the financial statements was caused by interest and penalties incurred on late payments, late delivery on orders and non-compliance with statutory requirements.

92. Resources, in the form of advance payments received from customers, were not utilised effectively, as required by section 57(b) of the PFMA.

Procurement and contract management

93. I was unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. A similar limitation was also reported in the prior year.
94. I was unable to obtain sufficient appropriate audit evidence that the preference point system was applied in all procurement of goods and services as required by section 2 (a) of the PPPFA.

Other information in the annual report

95. The accounting authority is responsible for the other information included in the annual report, which includes the director's report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information referred to does not include the consolidated and separate financial statements and the auditor's report.
96. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
97. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
98. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there

is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

99. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation. However, my objective was not to express any form of assurance on it.
100. The matters reported below are limited to the significant internal control deficiencies that resulted in a disclaimer of opinion and the material findings on compliance with legislation included in this report
101. Executive leadership did not take timely action to address the information control technology (ICT) environmental weaknesses and deficiencies that led to data loss, including lack of investment in the IT infrastructure. This has led to significant limitation of scope findings being raised by the auditors.
102. Management did not ensure that an action plan to resolve prior year reported audit findings is developed and implemented in a timely manner and that it was monitored to ensure prior year audit matters have been addressed.
103. Management did not implement sufficient and effective internal controls to ensure that the annual financial statements are prepared in compliance with the applicable laws and regulations. Effective and appropriate measures were not implemented to prevent and detect material errors in the submitted annual financial statements, as well as prevent and detect non-compliance.
104. The public entity lacks a proper record-keeping system to ensure that information is readily available when requested for audit.
105. Management did not have designed effective internal controls over the preparation of financial information reporting at division, group and subsidiary levels that drive disciplines around daily and monthly financial discipline to ensure credible financial and performance reporting for all divisions and subsidiaries.

106. No adequate reviews were implemented at financial statement preparation level to ensure that information submitted for input into the financial statements is accurate, valid and complete to ascertain that the amounts disclosed in the financial statements are supported by adequate supporting schedules/information.
107. The lack effective functioning internal audit hampered the comprehensive and appropriate assessment of the internal controls around financial and performance reporting, which led to the stagnation of the audit outcomes.

Material irregularities

108. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities *identified* during the audit.

Material irregularities identified during the audit

109. The material irregularities identified are as follows:

Financial statements submitted for auditing are not credible and are not supported by appropriate records

110. The entity did not maintain effective, efficient and transparent systems of financial -and risk management and internal control, as required by section 51(1)(a)(i) of the PFMA. The 2023/24 annual financial statements submitted for auditing were not credible and not supported by appropriate records.
111. The nature of the weaknesses identified during the review of the financial statements were severe and similar to what has been reported in previous financial years. The weaknesses identified confirms that the board has not implemented previous audit recommendations and have not maintained effective, efficient and transparent systems of financial and risk management and internal controls.
112. The non-compliance with section 51(1)(a)(i) of the PFMA is likely to cause substantial harm to the institution and its operations due to the following:
 - Weakens governance, obstructs oversight and eliminates accountability as there is no credible information to measure operational and financial performance of the entity.

- Limits the entity's ability to secure orders from customers, as most of Denel's targeted clients require the submission of audited financial statements as a condition to tender. Receiving a disclaimed audit opinion would most likely negatively affect Denel's likelihood of success in securing contracts/ orders.
 - Limits oversight by the shareholder and all other relevant accountability ecosystem role players.
 - Denel is currently failing to secure funding from the financial markets. The entity is partially reliant on government funding - through a recapitalisation that was allocated in 2023. On 2 February 2022, Denel's listed bonds were suspended from the JSE over its failure to submit its annual financial results for the 2020/21 financial year. The suspension resulted in Denel no longer raising capital through traded bonds. In addition, banking institutions require and rely on audited financial statements of the entity to continue and consider any funding and guarantees. A disclaimed audit opinion would negatively affect Denel's chances of success in securing funding and obtaining guarantees from the lending and banking institutions
113. The accounting authority was notified of the material irregularity on 16 April 2025 and invited to make a written submission on the actions taken or will be taken to address the matter. The accounting authority responded to the notification on 19 May 2025 and provided a detailed action plan aimed at resolving the materiality irregularity.
114. The accounting authority have indicated that the following actions are planned or in progress to address the material irregularity:
- Implementation of initiatives focused on enhancing skills and capacitation-building
 - Implementation of ICT governance and systems improvement initiatives;
 - Implementation of internal control improvement mechanisms
 - Reinforced oversight and governance practices
115. I will follow up on the implementation of the planned actions during my next audit.

ICT environmental failures that led to data loss

116. The entity did not maintain effective, efficient and transparent systems of financial and risk management and internal control, as required by section 51(1)(a)(i) of the PFMA . Inadequate ICT controls and safeguards as well significant ICT environment failures led to data loss.
117. The weaknesses in the ICT controls have been reported by the auditors in the previous year, but notable actions have not been taken to address these weaknesses to prevent the loss of data.
118. The non-compliance with section 51(1)(a)(i) of the PFMA has caused substantial harm to the institution and its operations due to the following:
- Cyber security vulnerabilities which has led to entity's loss of data.
 - Loss of financial data which has negatively affected the credibility of the entity's annual financial statement as the entity had not fully recovered its financial and production data.
 - The ageing and failure of IT infrastructure which continues to impact the availability of IT services and protection of financial and production data.
 - Weakened governance, obstructed oversight and limited accountability in the ICT environment as there are inadequate IT governance processes.
 - Limitation on the entity's ability to support its operations and protect the production data.
 - Increased risk of continued system failures and operational inefficiencies.
 - Likelihood of current and future impact on the successful implementation of the entity's turnaround strategy, as the business operations of the Denel Group are heavily reliant on IT systems. These weaknesses can further result in operational inefficiencies, increased risks, and challenges in achieving Denel strategic goals, ultimately impacting the overall performance and competitiveness.
119. The accounting authority was notified of the material irregularity on 16 April 2025 and invited to make a written submission on the actions taken or that will be taken to address the matter. The accounting authority responded to the notification on 19 May 2025 and provided a detailed action plan aimed at resolving the materiality irregularity.

120. The accounting authority have indicated that the following actions are planned or in process to address the material irregularity:

- Implementation of initiatives focused on enhancing skills and capacitation-building;
- Implementation of ICT governance and systems improvement initiatives including investment in the information technology infrastructure;
- Implementation of Internal control improvement mechanisms
- Improved and reinforce oversight and governance practices

121. I will follow up on the implementation of the planned actions during my next audit.

Other reports

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

123. Ongoing investigations conducted by the Special Investigating Unit (SIU) in terms of Presidential Proclamation R.32 of 2019, as amended by R57 of 2019. In terms of these proclamations, the SIU was directed to investigate:

124. The procurement and contracting for IT security services, services to develop a white paper relating to the validity of advance payment guarantees on all contracts entered into by Denel and the Armaments Corporation of South Africa Soc Limited, legal services or steel fabrication services and steel fabricated goods and any related losses or irregular or fruitless and wasteful expenditure incurred by Denel or the state as a results thereof.

- The awarding of bursaries by Denel, contrary to applicable policies, procedures, prescripts, practices of, or applicable to, Denel that regulate the awarding of such bursaries and related losses, or irregular or fruitless and wasteful expenditure incurred by Denel or the state as a result thereof.

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

125. As at the date of this report, these investigations had not yet been finalised.

Auditor-General

Pretoria

29 July 2025



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes:

- The auditor-general's responsibility for the audit.
- The selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and scepticism

As part of an audit, in accordance with the International Standards on Auditing, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and on the public entity's compliance with selected requirements in key legislation.

Communication with those charged with governance

I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act 1 of 1999	Section 50(3) Section 50(3)(a) Section 50(3)(b) Section 51(1)(a)(ii) Section 51(1)(a)(iii) Section 51(1)(b)(i) Section 51(1)(b)(ii) Section 51(1)(e)(iii) Section 52(b) Section 54(2)(c) Section 54(2)(d) Section 55(1)(a) Section 55(1)(b) Section 55(1)(c)(i) Section 56 Section 57(b) Section 57(d) Section 66(3)(a)
Treasury Regulations 2005	Regulation 29.1.1 Regulation 29.1.1(a) Regulation 29.1.1(c) Regulation 29.2.1 Regulation 29.2.2 Regulation 29.3.1 Regulation 31.2.5 Regulation 31.2.7(a) Regulation 33.1.1 Regulation 33.1.3

Legislation	Sections or regulations
Companies Act 71 of 2008	Section 30(3)(b)(i) Section 33(1)(a) Sections 45(2) Section 45(3)(a)(ii) Section 45(3)(b)(i) Section 45(3)(b)(ii) Section 45(4) Section 46(1)(a) Section 46(1)(b) Section 46(1)(c) Section 72(4)(a) Section 75(6) Section 86(1) Section 86(4) Section 88(2)(d) Section 112(2)(a) Section 129(7)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Companies Regulations	Regulation 30(2) Regulation 43(2)(a)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1) Section 22(3)
Construction Industry Development Board Regulations, 2004 (CIBD Regulations)	CIDB regulation 17 CIDB regulation 25(7A)
Preferential Procurement Policy Framework Act 5 of 2000	Section 1 Section 2(1)(a) Section 2(1)(b) Section 2(1)(f)
Preferential Procurement Regulations, 2017	Paragraph 4(1) Paragraph 4(2) Paragraph 5(1) Paragraph 5(3) Paragraph 5(6) Paragraph 5(7) Paragraph 6(8) Paragraph 7(8) Paragraph 8(2) Paragraph 8(5) Paragraph 9(1) Paragraph 9(2) Paragraph 10(1) Paragraph 10(2) Paragraph 11(1) Paragraph 12(1) Paragraph 12(2)
Preferential Procurement Regulations, 2022	Paragraph 3(1) Paragraph 4(1) Paragraph 4(2) Paragraph 4(3) Paragraph 4(4) Paragraph 5(1) Paragraph 5(2) Paragraph 5(3) Paragraph 5(4)

Legislation	Sections or regulations
NT SCM Instruction Note 3 2021/22	Paragraph 4(3) Paragraph 4(4) Paragraph 4(4)(c) Paragraph 4(4)(d) Paragraph 4(6) Paragraph 5(4)
NT SCM Instruction Note 4A of 2016/17	Paragraph 5
Second amendment of NT Instruction Note 5 of 2020/21	Paragraph 4(8) Paragraph 4(9) Paragraph 5(1) Paragraph 5(3)
NT SCM Instruction Note 11 of 2020/21	Paragraph 3(1) Paragraph 3.4(b) Paragraph 3.9
NT Instruction Note 4 of 2015/16	Paragraph 3(4)
Erratum NT Instruction Note 5 of 202/21	Paragraph 1 Paragraph 2
NT Instruction Note 5 of 2020/21	Paragraph 5.1 Paragraph 5.3

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION for the year ended 31 March 2024

	Notes	GROUP			COMPANY		
		2024 R'm	2023 R'm	2022 R'm	2024 R'm	2023 R'm	2022 R'm
ASSETS							
Non-current assets		2,990	3,256	3,029	2,042	2,030	1,980
Property, plant and equipment	2	582	616	650	475	493	520
Right of use asset	3	116	114	151	116	114	151
Investment properties	4	1,004	938	898	1,004	938	898
Intangible asset	5	45	54	62	16	24	32
Investments in subsidiaries	6	-	-	-	-	-	8
Investments in associated companies	7	1,239	1,178	1,022	427	371	371
Deferred tax asset	12	3	356	246	3	90	-
Current assets		4,727	6,983	3,588	4,724	7,057	3,348
Inventory	13	1,895	1,880	1,436	1,894	1,801	1,366
Trade and other receivables	9	567	510	921	573	511	765
Contract assets	10	671	590	558	671	579	547
Prepayments made		158	213	152	156	232	167
Post - retirement medical aid	11	1	1	1	1	1	1
Loan receivable	8	-	-	-	-	168	-
Income tax receivables	14	-	19	13	-	-	-
Cash and cash equivalents	15	1,435	3,770	507	1,429	3,765	502
Non-Current Assets held for sale	23	-	77	201	-	57	56
Total assets		7,717	10,316	6,818	6,767	9,144	5,384
EQUITY AND LIABILITIES							
Equity							
Share capital	16	15,204	15,204	11,621	15,204	15,204	11,621
Preference shares		-	-	-	-	-	-
Capital invested		-	-	-	-	-	-
Reserves	17	(10)	53	77	31	29	29
Accumulated loss		(13,472)	(12,539)	(12,484)	(14,315)	(13,320)	(13,277)
		1,722	2,718	(786)	920	1,913	(1,627)
Non-controlling interest		-	-	-	-	-	-
Total equity		1,722	2,718	(786)	920	1,913	(1,627)
Liabilities							
Non-current liabilities							
Borrowings	18	-	-	100	-	-	100
Contract liabilities	19	24	47	42	24	47	42
Advanced payments received	21	135	136	2,085	135	136	2,085
Deferred tax liability	12	3	4	2	3	4	2
Provisions	20	345	386	390	345	306	308
Leases		235	-	-	235	-	-
Current liabilities		5,251	6,980	4,986	5,104	6,739	4,474
Trade and other payables	22	1,219	2,596	2,437	1,121	2,459	2,013
Borrowings	18	122	278	346	153	296	373
Leases liabilities	3	19	251	180	19	251	180
Contract liabilities	19	1,467	1,385	1,356	1,467	1,358	1,322
Provisions	20	136	126	161	136	116	157
Prepayments received	21	2,270	2,310	487	2,190	2,240	410
Bank overdraft	15	18	35	19	18	21	19
Liabilities directly associated with assets held for sale	23	-	48	-	-	-	-
Total liabilities		5,993	7,601	7,605	5,846	7,232	7,011
Total equity and liabilities		7,715	10,319	6,818	6,767	9,146	5,383

STATEMENT OF PROFIT AND LOSS for the year ended 31 March 2024

	Notes	GROUP			COMPANY		
		2024 R'm	2023 R'm	2022 R'm	2024 R'm	2023 R'm	2022 R'm
Revenue	24	1,324	1,189	1,137	1,313	1,159	1,070
Cost of sales	26	(985)	(998)	(1,166)	(970)	(998)	(1,116)
Gross (loss) profit		339	192	(28)	344	162	(45)
Other income	27	300	1,437	374	285	1,436	382
Other operating gains /(losses)	28	(141)	(42)	(38)	(141)	(42)	(38)
Operating expenditure		(986)	(1,324)	(1,055)	(1,237)	(1,248)	(863)
Operating (loss) profit	29	(488)	263	(748)	(750)	308	(565)
Finance costs	31	(318)	(453)	(374)	(311)	(452)	(375)
Net Investment income	30	166	23	14	166	23	11
Share of profit/(loss) in associated companies		125	(20)	60	-	-	-
Loss before tax		(514)	(188)	(1,048)	(895)	(121)	(929)
Taxation expense	32	(18)	(12)	34	-	(4)	-
Loss for the year		(532)	(200)	(1,014)	(895)	(125)	(929)
Other comprehensive income							
Items that will not be reclassified to profit or loss:							
Share of comprehensive income of equity accounted investments		(65)	(24)	(64)	-	-	-
Other comprehensive income for the year net of taxation		-	-	-	-	-	-
Total comprehensive loss for the year		(597)	(224)	(1,078)	(895)	(125)	(929)

STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2024

	Share Capital	Share Premium	Total Share Capital	Revaluation Reserve	Reserve for valuation of financial instruments	Total Reserves	Accumulated loss	Total equity
Group								
Restated Balances at 01 April 2022	1,225	10,396	11,621	77	-	77	(12,234)	(536)
Loss for the year	-	-	-	-	-	-	(68)	(68)
Other comprehensive income	-	-	-	(24)	-	(24)	(24)	(24)
Total comprehensive Loss for the year	-	-	-	(24)	-	(24)	(68)	(92)
Issue of shares	-	3,583	3,583	-	-	-	-	3,583
Total contributions by distributions to owners of company recognised directly in equity	-	3,583	3,583	-	-	-	-	3,583
Balance at 31 March 2023	1,225	13,979	15,204	53	-	53	(12,302)	2,955
Loss for the year	-	-	-	-	-	-	(532)	(532)
Other comprehensive income	-	-	-	(65)	-	(65)	(65)	(65)
Total comprehensive Loss for the year	-	-	-	(65)	-	(65)	(532)	(597)
Other Adjustments	-	-	-	-	-	2	(638)	(636)
Total contributions by distributions to owners of company recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 31 March 2024	1,225	13,979	15,204	(12)	-	(10)	(13,472)	1,722
Company								
Restated Balances at 01 April 2022	1,225	10,396	11,621	29	-	29	(13,179)	(1,529)
Loss for the year	-	-	-	-	-	-	(92)	(92)
Prior Period Error	-	-	-	-	-	-	(8)	(8)
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive Loss for the year	-	-	-	-	-	-	(100)	(100)
Issue of shares	-	3,583	3,583	-	-	-	-	3,583
Total contributions by distributions to owners of company recognised directly in equity	-	3,583	3,583	-	-	-	-	3,583
Balance at 31 March 2023	1,225	13,979	15,204	29	-	29	(13,279)	1,954
Loss for the year	-	-	-	-	-	-	(895)	(895)
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive Loss for the year	-	-	-	-	-	-	(895)	(895)
Adjustments	-	-	-	2	-	2	(141)	(139)
Total contributions by distributions to owners of company recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 31 March 2024	1,225	13,979	15,204	31	-	31	(14,315)	920

Figures in Rand million

STATEMENT OF CASH FLOW for the year ended 31 March 2024

	Group			Company		
	2024	2023	2022	2024	2023	2022
Cash Flows from operating activities						
Cash used (generated) in operations	(2,227)	356	341	(2,123)	410	370
Interest income	166	23	17	166	23	11
Finance costs	(152)	(450)	(382)	(152)	(449)	(383)
Dividends paid	-	-	(4)	-	-	-
Tax paid	-	-	(63)	-	-	(55)
Net cash from operating activities	(2,213)	(71)	(91)	(2,109)	(16)	(57)
Cash Flows from investing activities						
Purchase of property, plant and equipment	(5)	(59)	(21)	(5)	(55)	(17)
Proceeds from sale of property, plant and equipment	-	89	-	0	16	-
Purchases of intangible assets	-	-	-	-	-	-
Net cash from investing activities	(5)	30	(21)	(5)	(39)	(17)
Cash Flows from financing activities						
Proceeds on issue of share capital	-	3,583	3,069	-	3,583	3,069
Long-term borrowings	(114)	(167)	(2,922)	(218)	(148)	(2,921)
Repayments of lease liabilities	(3)	(3)	-	(3)	(3)	-
Overdraft	-	16	2	-	2	2
Advanced payment	-	(126)	(86)	-	(119)	(79)
Net cash from financing activities	(117)	3,303	63	(221)	3,315	71
Total cash movement for the year	(2,335)	3,262	(49)	(2,335)	3,260	(3)
Cash and cash equivalents at the beginning of the year	3,770	508	557	3,763	503	506
Cash and cash equivalents at the end of the year	1,435	3,770	508	1,428	3,763	503

ACCOUNTING POLICIES

CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in South Africa. The consolidated and separate annual financial statements are presented in South African Rand (ZAR), rounded off to the nearest million (Rm), unless stated otherwise. The consolidated annual financial statements for the year ended 31 March 2023 comprise the company, its subsidiaries and associated companies.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act) and the Public Finance Management Act (PFMA). The principal accounting policies adopted in the preparation of the consolidated annual financial statements are set out below.

1.1 BASIS OF PREPARATION

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

1.2 CONSOLIDATION

Basis of consolidation

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

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

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

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

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

Where the company's interest in subsidiaries is less than 100%, the portion attributable to outside shareholders is reflected in non-controlling interest. Transactions with non-controlling interest entities are treated as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between the consideration paid and relevant share acquired is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity where there is no loss of control. The group reassesses whether 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.

Loss of control

When the group ceases to have control, any retained interest in the business unit is re-measured at its fair value, with the change in the carrying amount recognised in profit and loss. It rerecognises 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.

Investments in associated companies

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

Separate financial statements

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

ACCOUNTING POLICIES

Transactions eliminated on consolidation

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

1.3 INVESTMENTS IN ASSOCIATES

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. It generally accompanies a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method, except when the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the Statement of Financial Position at cost adjusted for post-acquisition changes in the group's share of net assets of the associate, less any impairment losses.

The group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Losses in an associate in excess of the group's interest in that associate, including any other unsecured receivables, are recognised only to the extent that the group has incurred a legal or constructive obligation to make payments on behalf of the associate.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between the group and an associate are eliminated to the extent of the group's interest therein. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

When the group reduces its level of significant influence or loses significant influence, the group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

1.4 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

1.5 JUDGEMENTS AND ESTIMATES

Control or joint control

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

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

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

ACCOUNTING POLICIES

Deferred tax asset

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

Revenue

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

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.

Useful lives and impairment of property, plant and equipment

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

Product warranties

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

Site restoration

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

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

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

The amount raised as a provision was based on the detailed study performed, taking into account the expected timing of decontamination, ranging between three and 30 years.

Countertrade

The group endeavours to fulfil its countertrade obligations. Certain obligations have been transferred to participating parties by means of back to back agreements.

Estimates used in calculating these obligations are as follows:

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

ACCOUNTING POLICIES

Post-employment benefit obligations

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

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., The likelihood of the counter-party defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring Expected Credit Loss (ECL), such as:

- Choosing appropriate models and assumptions for the measurement of Expected Credit Loss.
- Establishing categories of financial assets that have similar credit risk.

1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6.1 REVENUE RECOGNITION

IFRS 15 has a uniform model for all revenue recognition based on a contract for the sale of a good or service between two parties. The company then recognises the revenue when it satisfies the obligation to deliver the promised goods or services to the customer, which means that revenue is recognised when the customer obtains control over the good or service and has the ability to use or obtain the benefits from the good or service.

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

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

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

Contract revenue

Performance obligations

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

Transaction price

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

Instead, stand-alone selling prices are typically estimated based on expected costs plus the contract margin, consistent with the group's pricing principles. While payment terms vary from contract to contract, on many of the group's contracts, an element of the transaction price is received in advance of delivery. The group has therefore accounted for these advance payments as contract liabilities in accordance with IFRS 15 (Note 21). The group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile. The group also considered that, for the majority of its contracts, a prepayment guarantee is usually issued to the customer for the prepayment received.

ACCOUNTING POLICIES

Revenue and profit recognition

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

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

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

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

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

Contract modifications

In instances where the group's contracts are amended for changes due to customer requirements and specifications, a contract modification will exist when the parties to the contract create new enforceable rights and obligations. The effect of a contract modification on the transaction price and the group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

1.6.2 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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit and loss as finance cost as it occurs. Further details in this regard are contained in Note 23.

ACCOUNTING POLICIES

1.6.3 TAXES

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

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

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

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

1.6.4 FINANCIAL INSTRUMENTS

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

Financial assets

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

The group has the following classes:

Loans receivables

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

Trade and other receivables

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

Prepayments made

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

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

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

Financial liabilities

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

ACCOUNTING POLICIES

Loans and borrowings

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

Trade and other payables

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

Derivative financial instruments

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

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

De-recognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

1.6.5 FOREIGN CURRENCIES

Functional and presentation currency

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

Recording of foreign transactions

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

Translation of foreign currency transactions

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

1.6.6 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: 6.5% to 9%
- Manufacturing: 6.5% to 9%

ACCOUNTING POLICIES

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

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

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

1.6.7 PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation

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

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

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

Subsequent expenditure

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

Derecognition

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

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

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

Spare parts

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

1.6.8 LEASES

The company assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

ACCOUNTING POLICIES

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the company has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Company as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the company is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the company recognises the lease payments as an operating expense (note 29) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the company under residual value guarantees;
- the exercise price of purchase options, if the company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses. The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 31).

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the company will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position. Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

ACCOUNTING POLICIES

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Company as lessor

Leases for which the company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification. When the company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the company applies the exemption described previously, then it classifies the sub-lease as an operating lease.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated by applying IFRS 15.

Operating leases

Lease payments from operating leases are recognised on a straight-line basis over the term of the relevant lease, or on another systematic basis if that basis is more representative of the pattern in which the benefits from the use of the underlying asset are diminished. Operating lease income is included in other operating income (note 27).

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are expensed over the lease term on the same basis as the lease income.

Modifications made to operating leases are accounted for as a new lease from the effective date of the modification. Any prepaid or accrued lease payments relating to the original lease are treated as part of the lease payments of the new lease.

1.6.9 INTANGIBLE ASSETS

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

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

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

Research and development costs

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

ACCOUNTING POLICIES

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

Patents

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

Computer software

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

Business combinations and goodwill

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

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

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

1.6.10 IMPAIRMENT

Financial assets

The group has the following types of financial assets that are measured at amortised cost and subject to impairment under the expected credit loss model in accordance with IFRS 9:

- trade and other receivables
- contract assets
- lease receivables
- cash and cash equivalents

Trade receivables and contract assets do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, including lease receivables, which require expected lifetime losses to be recognised from the initial recognition of the receivables. Impairment losses are recognised in profit or loss.

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.

Trade and other receivables, contract assets and lease receivables

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the debtors age analysis over a period of 12 - 24 months. The expected loss rates are a product of probability of default and loss given default. The recovery rates used to derive the loss given default are computed as the ratio of cash received after 90 days in the current period to the value of receivables that are over 90 days past due in the past period.

ACCOUNTING POLICIES

Recovery rates are derived over a 5-year period to capture the long-term trends in recoveries of contract-based receivables.

The expected credit loss rates are adjusted to reflect the impact of relevant forward-looking macro-economic factors that exhibit strong commercial correlations with the underlying credit risk factors.

Write-off policy

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments following legal proceedings. Subsequent recoveries of amounts previously written off are credited against the same line item.

Cash and cash equivalents

The expected credit loss of cash and cash equivalents is measured using the three-stage general measure model. The group has a policy of investing cash in financial institutions that have an investment grade credit rating which implies low credit risk and consequently categorised as a stage one with the probability of default limited to 12 months. The probability of default for an investment grade credit rating is considered immaterial at close to zero percent. The loss given default applied to financial institutions in the ECL model is 60% reflecting an average global default rate for corporate bonds of 40%. The expected credit loss rates for cash and cash equivalents are therefore zero percent as a product of the probability of default and loss given default.

Non-financial assets

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

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

Reversals of impairments

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

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.

1.6.11 INVENTORIES

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

Work-in-progress and finished products

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

Consumable inventories

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

ACCOUNTING POLICIES

1.6.12 ADVANCE PAYMENTS RECEIVED FROM REVENUE CONTRACTS

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

1.6.13 EMPLOYEE BENEFITS

Pension obligations

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

Other post-retirement obligations

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The expected cost of this benefit is accrued over the period of employment and is funded by the Denel Medical Benefit Trust. The liability for this is with Denel. Independent qualified actuaries carry out valuations of these obligations on an annual basis (refer to Note 15.1).

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.

1.6.14 COUNTERTRADE OBLIGATIONS

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

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

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

1.6.15 SEGMENT REPORTING

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

1.6.16 HEDGE ACCOUNTING

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

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

1.6.17 IRREGULAR EXPENDITURE

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

ACCOUNTING POLICIES

1.6.18 FRUITLESS AND WASTEFUL EXPENDITURE

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

1.7 NON-CURRENT ASSETS (DISPOSAL GROUPS) HELD FOR SALE OR DISTRIBUTION TO OWNERS

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups are classified as held for distribution to owners when the entity is committed to distribute the asset or disposal group to the owners. This condition is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition, provided the distribution is expected to be completed within one year from the classification date.

Non-current assets or disposal groups held for sale distribution to owners are measured at the lower of their carrying amount and fair value less costs to sell.

A non-current asset is not depreciated or amortised while it is classified as held for sale held for distribution to owners, or while it is part of a disposal group classified as such.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale (distribution to owners) are recognised in profit or loss.

1.8 SHARE CAPITAL AND EQUITY

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

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

1.9 RELATED PARTY TRANSACTIONS

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Denel is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). As a state-owned entity, Denel is controlled by the national government of South Africa therefore is part of the national sphere. In accordance with IAS 24 Related Parties, and guidance issued by the Department of National Treasury, all departments and public entities in the national sphere of government are related parties. This includes state departments, other state-owned enterprises, and public entities that are subject to control, joint control or significant influence of national government. Entities in other spheres of government, and government entities that are independent in accordance with the constitution and laws of South Africa are not related parties of Denel. The full list of related parties is available on the National Treasury website (www.treasury.gov.za). In addition, the Denel has related-party relationships with its subsidiaries, associates and joint ventures (refer note 7), and with its key management personnel; i.e. directors and the Group Executives. Services rendered to related parties comprise principally the provision defence equipment and maintenance. Services purchased from related parties comprised principally energy, telecommunication, information technology and property-related services. Unless otherwise disclosed, all transactions with related parties are concluded on an arm's length basis. Detailed disclosure on related party transactions and balances is included in note 37.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

2. PROPERTY, PLANT AND EQUIPMENT

Group	2024			2023			2022		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Land	56	-	56	56	-	56	56	-	56
Buildings	571	(290)	281	465	(263)	202	475	(260)	215
Plant and machinery	1,616	(1,437)	179	1,432	(1,126)	306	1,453	(1,117)	336
Motor vehicles	76	(60)	16	72	(62)	10	94	(80)	14
Office equipment	47	(44)	3	28	(25)	3	28	(24)	4
IT equipment	226	(209)	17	144	(126)	18	141	(122)	19
Capital - Work in progress	31	-	31	21	-	21	5	-	5
Total	2,623	(2,040)	583	2,218	(1,602)	616	2,252	(1,603)	649
Reconciliation of property, plant and equipment - Group - 2024	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	202	-	-	10	(3)	72	281		
Plant and machinery	306	1	-	-	(25)	(103)	179		
Motor vehicles	10	1	(1)	-	(1)	-	10		
Office equipment	3	1	-	-	(1)	-	3		
IT equipment	18	3	-	-	(3)	-	17		
Capital - Work in progress	21	3	-	-	-	7	31		
	616	9	(1)	10	(33)	(24)	578		
Reconciliation of property, plant and equipment - Group - 2023	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	215	-	-	(10)	(1)	(2)	202		
Plant and machinery	336	-	(10)	-	(18)	(2)	306		
Motor vehicles	14	-	-	-	(4)	-	10		
Office equipment	4	-	-	-	(1)	-	3		
IT equipment	19	-	-	-	(1)	-	18		
Capital - Work in progress	5	16	-	-	-	-	21		
	649	16	(10)	(10)	(25)	(4)	616		
Reconciliation of property, plant and equipment - Group - 2022	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	214	2	-	-	(4)	-	212		
Plant and machinery	368	-	(14)	-	(23)	5	336		
Motor vehicles	35	-	(20)	-	(1)	-	14		
Office equipment	5	-	-	-	(1)	-	4		
IT equipment	27	-	(8)	-	-	-	19		
Capital - Work in progress	9	-	-	(4)	-	-	5		
	714	2	(42)	(4)	(29)	5	646		

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUES)

Company	2024			2023			2022		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Land	56	-	56	56	-	56	56	-	56
Buildings	474	(265)	209	475	(266)	209	475	(260)	215
Plant and machinery	1,301	(1,150)	151	1,302	(1,126)	176	(1,323)	(1,117)	206
Motor vehicles	72	(56)	16	72	(62)	10	94	(80)	14
Office equipment	28	(26)	3	28	(25)	3	28	(24)	4
IT equipment	147	(130)	17	144	(126)	18	141	(122)	19
Capital - Work in progress	24	-	24	21	-	21	5	-	5
Total	2,102	(1,627)	475	2,098	(1,605)	493	(2,122)	(1,603)	519
Reconciliation of property, plant and equipment - Company - 2024									
	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	209	-	-	-	(3)	-	206		
Plant and machinery	176	1	-	-	(20)	-	157		
Motor vehicles	10	1	(1)	-	(1)	-	10		
Office equipment	3	-	-	-	(1)	-	2		
IT equipment	18	3	-	-	(3)	-	17		
Capital - Work in progress	21	3	-	-	-	-	24		
	493	8	(1)	-	(28)	-	473		
Reconciliation of property, plant and equipment - Company - 2023									
	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	215	-	-	-	(3)	-	212		
Plant and machinery	206	-	(3)	-	(25)	(2)	176		
Motor vehicles	14	-	(2)	-	(2)	-	10		
Office equipment	4	-	-	-	(1)	-	3		
IT equipment	19	-	-	-	(1)	-	18		
Capital - Work in progress	5	16	-	-	-	-	21		
	519	16	(5)	-	(32)	(2)	496		
Reconciliation of property, plant and equipment - Company - 2022									
	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total		
Land	56	-	-	-	-	-	56		
Buildings	214	1	-	-	-	-	215		
Plant and machinery	238	-	(28)	-	(4)	-	206		
Motor vehicles	35	-	(19)	-	(2)	-	14		
Office equipment	5	-	-	-	(1)	-	4		
IT equipment	27	-	(2)	-	(6)	-	19		
Capital - Work in progress	9	-	-	(4)	-	-	5		
	584	1	(49)	(4)	(13)	-	519		

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

3. LEASES (GROUP AS LESSEE)

The group has the option to purchase the plant at a nominal amount on completion of the lease term. Details pertaining to leasing arrangements, where the group is lessee are presented below:

Group	2024				2023			2022
	Cost	Accumulated depreciation	Carrying value	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Cost
Buildings	243	(127)	116	-	-	-	-	244
Computer equipment	1	(1)	-	-	1	(1)	-	3
	244	(128)	116	-	239	(127)	113	247
Reconciliation of Leases- Group - 2024	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total	
Land	-	-	-	-	-	-	-	-
Buildings	113	4	-	-	(2)	-	-	116
Computer equipment	-	-	-	-	-	-	-	-
	113	4	-	-	(2)	-	-	116
Reconciliation of Leases- Group - 2023	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total	
Land	-	-	-	-	-	-	-	-
Buildings	149	-	-	(5)	(31)	-	-	113
Computer equipment	2	-	-	(2)	-	-	-	-
	151	-	-	(7)	(31)	-	-	113
Reconciliation of Leases- Group - 2022	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total	
Land	-	-	-	-	-	-	-	-
Buildings	178	-	-	-	(29)	-	-	149
Computer equipment	2	-	-	-	-	-	-	2
	180	-	-	-	(29)	-	-	151
Company	Cost	Accumulated depreciation	Carrying value	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Cost
Buildings	243	(127)	116	-	-	(125)	-	244
Computer equipment	1	(1)	-	-	1	(1)	-	3
	244	(128)	116	-	239	(126)	113	247
Reconciliation of Leases- Company - 2024	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total	
Land	-	-	-	-	-	-	-	-
Buildings	113	4	-	-	(2)	-	-	116
Computer equipment	-	-	-	-	-	-	-	-
	113	4	-	-	(2)	-	-	116

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

3. LEASES (GROUP AS LESSEE)

Reconciliation of Leases- Company - 2023	Opening balance	Additions	Disposals	Adjustments for lease reassessments	Depreciation	RUA Impairment	Total
Land	-	-	-	-	-	-	-
Buildings	149	-	-	(5)	(31)	-	113
Computer equipment	2	-	-	(2)	-	-	-
	151	-	-	(7)	(31)	-	113
Reconciliation of Leases- Company - 2022	Opening balance	Additions	Disposals	Adjustments for lease reassessments	Depreciation	RUA Impairment	Total
Land	-	-	-	-	-	-	-
Buildings	178	-	-	-	(29)	-	149
Computer equipment	2	-	-	-	-	-	2
	180	-	-	-	(29)	-	151

Net carrying amounts of right-of-use assets

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

	Group			Company	
	2024	2023	2022	2024	2023
Buildings	116	113	23	116	113
					23
Current liabilities	19	251	180	19	251
Non-current lease liabilities	235			235	180

Lease liabilities

Lease liabilities have been included in the borrowings line item on the statement of financial position. Refer to note 18 Borrowings. The maturity analysis of lease liabilities is as follows:

Exposure to currency risk
The net carrying amounts, in Rand, of lease liabilities are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amount at the closing rate at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

4. INVESTMENT PROPERTY

Group	2024			2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	1,004	-	1,004	938	-	938	898	-	898

Company	2024			2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	1,004	-	1,004	938	-	938	898	-	898

	Group				Company			
	2024	2023	2022	2022	2024	2023	2023	2022
Fair value at 1 April	938	898	863	863	938	898	863	863
Fair value adjustment	66	40	35	35	66	40	35	35
Transfer to assets held for sale	-	-	-	-	-	-	-	-
Fair value at 31 March	1,004	938	898	898	1,004	938	898	898

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, 1.6.6.

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

4. INVESTMENT PROPERTY

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
<p>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.</p>	<ul style="list-style-type: none"> > Expected market rental growth (5.8%- 8.0%, weighted average 7%); > Void periods (average six months after the end of each lease); > Occupancy rate (85 - 90%, weighted average 88%); > Rent-free periods (six months period on new leases required); and > Risk adjusted discount rates (12.7%, weighted average 14.45%). 	<p>The estimated fair value would increase/decrease if:</p> <ul style="list-style-type: none"> > Expected market rental growth were higher/lower; > The occupancy rate were higher/lower; > Rent-free periods were shorter/longer; or > The risk-adjusted discount rate were lower/higher.

Revaluations were performed by an independent valuer, Mvezo Services. Mvezo Services are not connected to the group and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

5. INTANGIBLE ASSETS

Group	2024			2023			2022		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Computer software	178	(147)	31	179	(145)	34	179	(142)	37
Intangible assets	203	(193)	10	203	(191)	12	203	(186)	17
Other intangible assets	4	-	4	8	-	8	8	-	8
Total	386	(340)	45	390	(336)	54	390	(328)	62

Company	2024			2023			2022		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Computer software	149	(147)	2	149	(145)	4	149	(142)	7
Intangible assets	203	(193)	10	203	(191)	12	203	(186)	17
Other intangible assets	4	-	4	8	-	8	8	-	8
Total	356	(340)	16	360	(336)	24	360	(328)	32

Reconciliation of intangible assets - Group - 2024	Amortisation			
	Opening balance	Amortisation Total	Additions	Disposals
Computer software, other	34	(2)	-	(1)
Intangible assets	12	(2)	-	-
Other intangible assets	8	-	-	(4)
Total	54	(4)	-	(4)

Reconciliation of intangible assets - Group - 2023	Amortisation			
	Opening balance	Amortisation Total	Additions	Disposals
Computer software, other	37	(3)	-	-
Intangible assets	17	(5)	-	-
Other intangible assets	8	-	-	-
Total	62	(8)	-	54

Reconciliation of intangible assets - Group - 2022	Amortisation			
	Opening balance	Amortisation Total	Additions	Disposals
Computer software, other	41	(4)	-	-
Intangible assets	17	-	-	-
Other intangible assets	8	-	-	-
Total	66	(4)	-	62

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

5. INTANGIBLE ASSETS

Reconciliation of intangible assets - Company - 2024						
	Opening balance	Amortisation	Additions	Disposals	Total	
Computer software, other	4	(2)	-	-	2	
Intangible assets	12	(2)	-	-	10	
Other intangible assets	8	-	-	(4)	4	
	24	(4)	-	(4)	16	
Reconciliation of intangible assets - Company - 2023						
	Opening balance	Amortisation	Additions	Disposals	Total	
Computer software, other	7	(3)	-	-	4	
Intangible assets	17	(5)	-	-	12	
Other intangible assets	8	-	-	-	8	
	32	(8)	-	-	24	
Reconciliation of intangible assets - Company - 2022						
	Opening balance	Amortisation	Additions	Disposals	Total	
Computer software, other	11	(4)	-	-	7	
Intangible assets	17	-	-	-	17	
Other intangible assets	8	-	-	-	8	
	36	(4)	-	-	32	

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

6. INVESTMENTS IN SUBSIDIARIES

	2024	2023	2022
Unlisted shares	836	836	2,525
Accumulated impairment	(836)	(836)	(2,517)
	0	0	8

The accumulated impairment loss on investments in subsidiaries and divisions is as follows:

Unlisted shares	-	-	-
Impairment for the year	-	-	-
Balance at 1 April	-	-	2,517
	-	-	2,517

Company	% holding	2024		2023		2022	
		Opening balance	Impairment	Opening balance	Impairment	Opening balance	Impairment
Denel Aerostructures SOC Ltd	100%	-	-	-	-	1,689	(1,689)
Densecure SOC Ltd	100%	-	-	8	-8	8	-
Denel Vehicles Systems (Pty) Ltd	100%	-	-	-	-	828	(828)

> Denel Aerostructure SOC Ltd, a wholly owned subsidiary of Denel SOC Ltd was placed under provisional liquidation on 31 March 2021.

Immaterial subsidiaries not consolidated

> Denel initially purchased 49% of the ordinary shares in Turbomeca Africa (Pty) Ltd (TMA) as an investment in associate in terms of IAS 28 Investments in Associates and Joint Ventures. On 01 September 2017, Denel obtained an additional 51% of the ordinary shares in TMA, which gave them 100% ownership, and thus control over TMA.

> The plan for the acquisition was to distribute the assets and related liabilities to a division within the Denel group (Denel Aeronautics) and eventually wind-up TMA. On 2 September 2017, the board continued with the plan of dissolving TMA by transferring the assets and liabilities to Denel's division, Aeronautics. The transfer excluded the cash and cash equivalent account which was to be used to receive all the debts owed by debtors to TMA. The plan was executed in the 2017/18 reporting period.

> Consolidation should ideally be performed until an entity is closed or the subsidiary is deemed immaterial to be consolidated. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

> The assets and associated liabilities of TMA have been transferred to the Aeronautics division within Denel and therefore what is remaining in the books of TMA is immaterial both quantitatively and qualitatively. The business activities of TMA will be represented at the group level within the division in which they have been transferred. Therefore TMA has not been consolidated furthermore, the investment in TMA has been fully impaired.

> The remaining immaterial interest in TMA continues to be held at cost less impairment until such a time that TMA is finally deregistered as per Denel's intention.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

7. INVESTMENT IN ASSOCIATED COMPANIES

ESTABLISHMENT OF ASSOCIATED COMPANIES

As part of the turn-around strategy that was agreed with government Denel embarked on a process to identify partners who will share technology, development cost and funding, access to markets and assist in management. During this process a number of equity partners were identified 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 the power to participate in the financial and operating policy decisions of the company, but not control or have joint control over those policies. Control is the power to govern the financial and operating policies of a company in order to obtain benefits from its activities. Although Denel has significant influence over its associated companies, it has no control or joint control over its associated companies with respect to their financial and operating policy.

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

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

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

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

The following facts are significant to the 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 for TMA, where Denel appoints the CFO.
- The equity partners are responsible for the day-to-day running and performance of the companies.

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

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

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

Barij Dynamics, Hensoldt and Rheinmetall Denel Munition has a 31 December financial year end which is different from Denel's SOC reporting period (31 March). Denel account for the transactions from the associates between January and March and adjust the share profit/loss and the investment balance. Therefore, there was no unrecognized share of loss on investment in associates, both for the reporting period and cumulatively since the financial year end of the associates was in December and our year end is March therefore all the transactions were taken into account.

The aggregate carrying amount of the investment in immaterial associates is R286m (R58m 2023/22)

The immaterial associates (Barij and Hensoldt) have nil other comprehensive income in the current year (nil 2023/22)

No dividends were received in any of the associated companies in the current year and in the prior year.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

ESTABLISHMENT OF ASSOCIATED COMPANIES (CONTINUED)

Associated company	Equity partner	Denel SOC Ltd		Equity partner	
		Shareholding %	Number of board members	Shareholding %	Number of board members
Rheinmetall Denel Munitions (Pty) Ltd	Rheinmetall Waffe Munition GmbH	49	2	51	3
Hensoldt Optronics (Pty) Ltd	Hensoldt Sensors GmbH	49	2	51	5
Barij Dynamics	Tawazun Holding	49	2	51	3

*These investments in associates companies have been equity accounted.

NET INVESTMENT IN ASSOCIATED COMPANIES

The total comprehensive loss attributable to the material associated companies for the year-end 31 December 2024 was R65m (R24m loss 2023/22). 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 is R952m (R964m for 2023/22). The attributable comprehensive loss of R24m for 2023/22 has been offsetted against 2023/22's generated profits of the associated company before the investment was recognised in the company's accounting records.

	GROUP			COMPANY		
	2024 ZAR	2023 ZAR	2022 ZAR	2024 ZAR	2023 ZAR	2022 ZAR
Cost of investments in associated companies						
Unlisted shares	427	371	371	371	371	371
Prior Period Error ^	-	56	-	56	-	-
Restated Unlisted shares	427	427	371	427	371	371
Net share of results in associated companies	812	751	650	-	-	-
Share of current profit before tax	(234)	268	81	-	-	-
Share of current year tax	359	(194)	4	-	-	-
Share of current year profit after tax (refer note 35)	125	74	85	-	-	-
Dividends paid	-	-	-	-	-	-
Transferred to non current asset held for sale - Hensoldt	-	(40)	(11)	-	-	-
Prior Period error - Transferred from non current asset held for sale - Hensoldt	-	185	-	-	-	-
Share of other comprehensive income _ fair value hedge	(65)	(24)	(64)	-	-	-
Impairment of Investment in Barij	-	-	-	-	-	-
Accumulated profit at 1 April	752	738	727	-	-	-
Prior Period Error - Correction of Barij Dividends*	-	(61)	(61)	-	-	-
Prior Period Error - Overstatement of RDM's profits #	-	(26)	(26)	-	-	-
Prior Period Error - Overstatement of RDM's profits #	-	(94)	-	-	-	-
Net investments in associated companies	1,239	1,178	1,021	427	371	371

^ This relates to the investment in Hensoldt that was accounted under IFRS 5 assets Held for Sale, the sale of this investment was declined and should have been reallocated to Investment in Associate in 2023.

* The share of profit for the 2022 year was overstated due to the incorrect amount of dividends received from Barij that was recognised.

The share of profit for the 2022 and 2023 years was overstated due to the different financial years between Denel SOC and it's associates that have a 31 December year end. This relates to the 3 months adjustment that was material.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2024

NET INVESTMENT IN ASSOCIATED (CONTINUED)

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

	GROUP			COMPANY		
	2024 ZAR	2023 ZAR	2022 ZAR	2024 ZAR	2023 ZAR	2022 ZAR
Cost of investment in associated companies						
Hensoldt Optronics (Pty) Ltd	255	-	-	56	-	-
Hensoldt Optronics (Pty) Ltd prior period error	-	241			56	
Hensoldt Optronics (Pty) Ltd - Restated	255	241	-	56	56	-
Rheinmetall Denel Munitions (Pty) Ltd	952	1,061	895	371	371	371
Rheinmetall Denel Munitions (Pty) Ltd prior period error	-	(26)	(26)			
Rheinmetall Denel Munitions (Pty) Ltd - Restated	952	1,035	869	371	371	371
Barij Dynamics LLC (previously Tawazun Dynamics)	31	58	214	-	-	-
Barij Dynamics LLC (previously Tawazun Dynamics) prior period error	-	(156)	(61)			
Barij Dynamics LLC (previously Tawazun Dynamics) - Restated	31	(98)	153	-	-	-
Net investments in associated companies	1,239	1,119	1,109	427	371	371
Net investments in associated companies - Restated	1,239	1,178	1,022	427	427	371

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

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

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

Summarised Statement of Profit or Loss and Other Comprehensive Income	2024	2023	2022
Revenue	3,554	3,930	2,000
Group's share of revenue	1,742	1,926	980
Profit before tax ^	150	563	61
Group's share of profit/(loss) after tax ^	73	276	(29)
Profit after tax*	146	387	48
Group's share of profit after tax*	71	190	24
Depreciation and armotisation	(86)	(86)	(77)
Group's share of depreciation and armotisation	(42)	(42)	(38)
Interest income	10	3	3
Group's share of interest income	5	1	1
Interest expense	(123)	(128)	(144)
Group's share of interest expense	(60)	(62)	(71)
Income tax expense	61	(155)	(13)
Group's share of income tax expense	30	(76)	(6)

^ The Profit Before Tax was incorrectly stated as -R563m in the prior year (2023), this has been corrected and stated as R563m (positive)

*The Profit After Tax was incorrectly stated as R190m in the prior year (2023), this has been corrected and stated as R387m resulting in a change in Group's share of profit from R93m to R190m.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2024

EXTRACTS FROM AUDITED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Summarised Statement of Financial Position	2024	2023	2022
Total assets	6,039	5,370	4,405
Non-current assets	1,723	1,092	1,056
Current assets excluding cash and cash equivalents	4,101	3,540	3,327
Cash and cash equivalents	215	738	22
Total liabilities	4,969	5,092	4,462
Non-current liabilities	2,284	792	248
Current liabilities excluding trade and other payables and provisions	818	1,644	1,638
Current liabilities	1,868	2,656	2,576
Net assets	1,070	278	(57)
Group's share of associated company's net assets	525	941	775

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

Summarised Statement of Profit or Loss and Other Comprehensive Income	2024	2023	2022
Revenue	3,246	1,573	579
Group's share of revenue	1,296	483	284
Profit before tax	375	(72)	(64)
Group's share of profit after tax	160	(65)	(31)
Profit after tax	376	(96)	(64)
Group's share of revenue	160	(72)	(31)
Depreciation and armotisation	(96)	(45)	(1)
Group's share of depreciation and armotisation	(35)	(14)	(0)
Interest income	134	56	-
Group's share of interest income	40	17	-
Interest expense	(269)	(107)	(12)
Group's share of interest expense	(86)	(34)	(6)
Income tax expense	2	(25)	-
Group's share of income tax expense	0	(8)	-

Summarised Statement of Financial Position	2024	2023	2022
Total assets	6,491	4,019	2,613
Non-current assets	869	511	470
Current assets (excluding cash and cash equivalents)	5,331	3,399	2,140
Cash and cash equivalents	291	109	4
Total liabilities	4,450	2,591	1,616
Non-current liabilities	992	223	168
Current liabilities	3,458	2,368	1,448
Net assets	2,041	1,428	997
Group's share of associated company's net assets	827	550	489

8. LOANS AND RECEIVABLES

	2024	2023	2022
C IBR unsecured internal*		168	-

Exposure to credit risk

Loans receivable inherently exposes the group to credit risk, being the risk that the group will incur financial loss if counterparties fail to make payments as they fall due.

*The loan receivable was with DVS and Densecure, it could not eliminate at co level at the receivable is sitting at treasury - co but the payable is sitting at group, it therefore eliminates at group level. It was only DVS.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

9. TRADE AND OTHER RECEIVABLES

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
Financial instruments	497	408	765	505	410	610
Trade receivables	347	306	697	314	266	504
Trade receivables - intergroup	-	13	18	41	56	60
Interest receivables	6	1	2	6	1	2
Sundry receivables	144	87	48	144	87	43
Non-financial assets	71	103	155	69	101	155
Work performed not yet invoiced	-	-	-	-	-	-
Straight line receivables	64	64	62	64	64	62
Sundry receivables	6	38	94	5	37	94
	567	510	921	574	511	765
Accumulated impairment						
Balance at 1 April	(96)	(120)	(29)	(96)	(120)	(29)
Business acquired	-	-	-	-	-	-
Impairment for the year	(10)	(4)	56	(10)	(4)	56
Impairment reversal for the year	5	28	4	5	28	4
Recovered during the year	-	-	1	-	-	1
Written off as non-collectible	1	0	-	1	0	-
	(101)	(96)	32	(101)	(96)	32
Gross	668			674		

The trade receivables book was segmented into groups of customers that are considered to exhibit similar credit risks and behaviour. Each division within the group trades independently, resulting in each division representing a different risk bucket. Within the divisions, Denel further segmented the trade receivables between individually material and general trade receivables that would have similar credit risk profiles. Where a segment has an insufficient number of customers, observable default history or is not material, a judgmental overlay was applied, which took into account the number of customers and observable default history in conjunction with the data quality.

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

Exposure to currency risk

The net carrying amounts, in Rand, of trade and other receivables, excluding non-financial instruments, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amount at the closing rate at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

10. CONTRACT ASSETS

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
Contract assets	692	603	560	681	592	549
Loss allowance	(21)	(13)	(2)	(12)	(13)	(2)
	671	590	558	669	579	547
Opening Balance	590	558	907	579	547	896
Adjustment	83	-	(295)	85	-	(295)
IFRS Change	6	-	-	6	-	14
Other	13	32	(54)	13	32	(68)
Impairment	(21)	-	-	(12)	-	-
	671	590	558	671	579	547
Split between non-current and current portions						
Current assets	671	590	558	671	579	547
Non Current assets	-	-	-	-	-	-
				2024 Rm	2023 Rm	2022 Rm

11. POST-RETIREMENT OBLIGATIONS

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

11.1 DENEL MEDICAL BENEFIT TRUST (DMBT)

Denel concluded the unlocking of the DMBT excess funds in August 2022 through a court judgement. As part of the transaction an inflation linked policy was bought for all members against the liability. 438 beneficiaries accepted an individual policy from Old Mutual and are no longer beneficiaries of the DMBT. A group policy was obtained from Old Mutual for the remaining members and the PRMA liability is discharged and paid for by Old Mutual from this policy. Any excess funds from this arrangement are paid back to Denel on an annual basis.

Change in defined benefit funded obligation

Present value of funded obligations at 1 April	367	367	375
Interest cost on projected benefit obligation	-	-	38
Remeasurement	-	-	(16)
Benefits paid	-	-	(30)
Present value of funded obligations at 31 March	367	367	367

Change in plan assets

Fair value of plan assets at 1 April	1,875	1,875	1,645
Expected return on plan assets	-	-	172
Remeasurement	-	-	88
Benefits paid	-	-	(30)
Present value of funded obligations at 31 March	1,875	1,875	1,875

Fund excess	-	-	1,508
Excess not recognised	-	-	(1,508)
Unrecognised actuarial gains	-	-	-

Net benefit expenses

Interest cost	-	-	38
Expected return on plan assets	-	-	(172)
Income	-	-	(134)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

11.1 DENEL MEDICAL BENEFIT TRUST (DMBT) (CONTINEUD)

The principal actuarial assumptions used for accounting purposes were:

Expected return on plan assets	-	-	10.6%
Expected medical inflation	-	-	8.2%

The beneficiary members from the funds are as follows:

Active members	-	-	25
Retired members	-	-	605

	Increase %	Decrease %	Increase %	Decrease %
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	9	7	7	9

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

	2022 R	2021 R	2020 R	2019 R
Defined benefit obligation	(375)	(374)	(388)	(409)
Plan assets	1,645	1,485	1,394	1,326
Surplus	1,270	1,111	1,005	917
Experience adjustments on plan liabilities	-	-9	-3	-

Discount rate

Variation

	Health care cost inflation	Change in past-service contractual liability	Change in service funding level	Change in service cost plus interest cost
+1%	8.8%	8.1%	-38.4%	8.5%
-1%	6.8%	-7.2%	39.6%	-7.6%

Retirement Age

Variation

	Change in past-service contractual liability	Change in service funding level	Change in service cost plus interest cost
65		0.038%	-15.0%
55		0.076%	-28.0%

11.2 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
12. DEFEERED TAX						
Net deferred tax asset comprises						
Property plant and equipment	-	266	246	-	-	-
Advance payments received	(14)	-	-	(14)	-	-
Amounts due to customers for work invoiced, not yet performed	-	-	-	-	-	-
Capital allowances	-	-	-	-	-	-
Limit deferred tax asset to liability	1	-	-	1	-	-
Provisions	16	-	-	16	-	-
Other tax deductible differences	-	90	-	-	90	-
Total deferred tax asset	3	356	246	3	90	-

Net deferred tax liability comprises						
Capital allowances	(3)	(4)	(2)	(3)	(4)	(2)
Doubtful debt allowance	(0)	-	-	(0)	-	-
Prepayments made	-	-	-	-	-	-
Section 24 allowance on prepayments received	-	-	-	-	-	-
Other tax deductible differences	(0)	-	-	(0)	-	-
Contracts assets	-	-	-	-	-	-
Total deferred tax liability	(3)	(4)	(2)	(3)	(4)	(2)

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

Deferred tax liability	(3)	(4)	(2)	-	(4)	(2)
Deferred tax asset	3	356	246	-	(4)	-
Total net deferred tax asset	0	352	244	-	(8)	(2)

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
13. INVENTORIES						
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:						
Consumable inventory	134	164	156	133	162	154
Contracts in progress	-	-	-	-	-	-
Goods in transit	8	1	2	7	1	2
Finished products	246	281	330	242	277	325
Raw materials and bought-out components	1,344	1,210	655	1,344	1,210	655
Spare parts	54	43	56	-	-	-
Work in progress	617	614	633	509	491	512
Inventory purchased during the financial year	-	1	2	-	1	2
Inventories before accumulated impairment	2,403	2,315	1,834	2,235	2,142	1,651
Accumulated impairment						
Balance at 1 April	(454)	(395)	(226)	(338)	(282)	(114)
Business acquired	-	-	-	-	-	-
Impairment for the year	(56)	(41)	(177)	(4)	(62)	(176)
Impairment reversal for the year	1	2	5	1	3	4
Inventories after accumulated impairment	1,895	1,880	1,436	1,894	1,801	1,366

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
14. INCOME TAX RECEIVABLES	-	19	13	-	-	-
Income tax expense note						
Major components						
Current tax expense	-	-	-	-	-	-
- SA Current expense	-	-	-	-	-	-
- Foreign current tax	-	-	-	-	-	-
- Over/Under provision	-	-	-	-	-	-
Deferred tax expense	-	-	-	-	-	-
- Movements in temporary difference	-	-	-	-	-	-
- Normal Tax	-	-	-	-	-	-
Assessed loss/Tax loss						
- Carried forward (C/Y)	-	-	-	-	-	-
- Brought Forward (P/Y)	-	-	-	-	-	-
Change in Tax rate						
- from 28% to 27% CGT	-	-	-	-	-	-
- Assessed loss normal tax	-	-	-	-	-	-
Total income tax expense	-	-	-	-	-	-
Tax rate reconciliation						
Profit/(loss) before tax	-	-	-	-	-	-
Tax @ 27%	-	-	-	-	-	-
- Non deductible expense	-	-	-	-	-	-
- Non Taxable income	-	-	-	-	-	-
- Tax change in rate	-	-	-	-	-	-
- Under/over provision	-	-	-	-	-	-
- Unrecognised tax loss	-	-	-	-	-	-
- Foreign Income	-	-	-	-	-	-
- Effects of capital gain	-	-	-	-	-	-
Effective tax	-	-	-	-	-	-
Effective tax rate (nil)	-	-	-	-	-	-
Deferred tax balance note						

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
15. CASH AND CASH EQUIVALENTS						
CASH AND CASH EQUIVALENTS CONSISTS OF:						
Cash and short-term deposits	1,435	3,769	507	1,429	3,764	501
Bank overdraft	(18)	(35)	(19)	(18)	(21)	(19)
	1,417	3,734	489	1,411	3,743	483
CASH AND CASH EQUIVALENTS CONSISTS OF:						
Cash in bank	125	433	178	119	428	172
Banks	45	247	92	39	242	87
Banks (Foreign currency)	80	186	85	80	186	85
Deposits	-	-	-	-	-	-
Local call deposits	-	-	-	-	-	-
Cash restricted use for use	1,310	3,336	330	1,310	3,336	329
Local banks	1,310	3,336	330	1,310	3,336	329
Current assets	1,435	3,770	507	1,429	3,765	502
Current liabilities	(18)	(35)	(19)	(18)	(21)	(19)
	1,417	3,735	488	1,411	3,744	483

Cash and cash equivalents are as per the consolidated statements of cash flows. The weighted average effective interest rate on call deposits is 7.94% (2023/22: 7.28%, 2022/21: 3.25%). Interest on cash in bank is earned at market rates.

The funds included in cash and short-term deposits are available on demand, except for the amount relating to the turret programme which is ringfenced, R453m (2023/22: R323m, 2022/21: R323m).

Denel received recapitalisation funds from the Shareholder with conditions to access. Denel could only access R2,4bn as at 31 March 2024 with the remainder (R851m) ringfenced until such conditions have been met.

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
16. CAPITAL AND PREMIUM						
At year-end, the number of issued Class A ordinary shares were 1 000 000 000 (2021/22: 1 000 000 000, 2020/21: 1 000 000 000) and the number of issued. Class B ordinary shares were 225 123 171 (2022/23: 225 123 171, 2021/22: 225 081 346). Below is the summary of shares issues.						
AUTHORISED CAPITAL						
1 000 000 000 Class A ordinary shares of R1 each	1,000	1,000	1,000	1,000	1,000	1,000
225 123 171 Class B ordinary shares of R1 each	225	225	225	225	225	225
	1,225	1,225	1,225	1,225	1,225	1,225
ISSUED CAPITAL						
Share capital issued at par value	1,225	1,217	1,225	1,225	1,225	1,225
Ordinary Type A	-	8	-	-	-	-
Share premium	13,979	13,979	10,396	13,979	13,979	10,396
	15,204	15,204	11,621	15,204	15,204	11,621

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024	2023	2022	2024	2023	2022
	Rm	Rm	Rm	Rm	Rm	Rm

17. REVALUATION RESERVE

The revaluation reserve is in respect of the transfer of owner occupied property to investment property.

Reserves	(10)	53	77	31	29	29
Made of:						
NDR Revaluation Surplus On Property, Plant & Equipment	33	30	30	33	30	30
Actuarial Gains & Losses	(1)	24	(1)	(1)	-	(1)
NDR Reverse Cash Flow Hedge	(41)	(1)	48	-	(1)	
	(10)	53	77	31	29	29

	GROUP			COMPANY		
	2024	2023	2022	2024	2023	2022
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
	Rm	Rm	Rm	Rm	Rm	Rm

18. BORROWINGS

Held at amortised cost

Bank loan	-	-	100	-	-	100
Inter group loans	-	12	-	-	-	-
Secured loans	118	161	151	149	191	178
Current portion of interest bearing loans and borrowings included under current liabilities	2	102	192	2	102	192
CFC	3	3	3	3	3	3
Escrow	-	-	-	-	-	-
	122	278	446	153	296	473

Weighted average effective interest rates banking

Local unsecured loans (fixed rate)	11%	8%	6%	11%	8%	6%
Current bank borrowings (floating rate)	17%	12%	8%	17%	12%	8%
Subtotal	28%	20%	14%	28%	20%	14%

Summary of maturity of borrowings Maturing

Within three months	-	178	156	-	196	183
Between three and twelve months	122	100	190	153	100	190
Between one and two years	-	-	100	-	-	100
Subtotal	122	278	446	153	296	473

Denel registered a R3 bn Domestic Medium-Term Note programme with the JSE, which was increased to R4 bn during 2018/19. Under the programme, Denel could raise senior and/or subordinated notes up to the registered amount, and the amount at year-end was Rnil (2023/22: R100, 2022/22: R290). The programme contained crossdefault (indebtedness of outstanding amount equals or exceeds 1% (2023/22: 1%, 2022/21: 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).

Summary of maturity of borrowing was incorrectly aged including intercompany balances (R1139 2023/22 R1039 within three months and R100 between three and twelve months; R1271 2022/21 R981 within three months, R190 between three and twelve months and R100 between one and two years. The 2023 and 2022 ageing has been corrected to exclude intercompany balances)

Issue date	Issue date	Maturity date	Rm
3 month JIBAR + 220 bps	28-Sep-18	28-Sep-23	100

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 ZAR	2023 ZAR	2022 ZAR	2024 ZAR	2023 ZAR	2022 ZAR
19. CONTRACT LIABILITIES						
Opening Balance	1,431	1,402	1,462	1,405	1,369	1,429
Adjustment	(32)	(116)	-	(32)	(116)	-
Restated opening balance	1,399	1,286	1,462	1,373	1,253	1,429
IFRS Change	(23)	(3)	6	(23)	(3)	6
Other	115	149	(70)	141	155	(70)
New contracts	-	-	(0)	-	-	(0)
Total Contract Liabilities	1,491	1,432	1,397	1,491	1,404	1,364

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

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

A contract liability arises in respect of the group customer loyalty programme. The points provide a benefit to customers that they would not receive without entering into a purchase contract and the promise to provide loyalty points to the customer is therefore a separate performance obligation. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction. Contract liabilities relating to construction contracts represent balances which are due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

Check	-	-	-	-	-	-
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Split between non-current and current portions

Non-current liabilities	24	47	42	24	47	42
Current liabilities	1,467	1,385	1,355	1,467	1,357	1,322
	1,491	1,432	1,397	1,491	1,404	1,364
	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

20. PROVISIONS

Reconciliation of provisions - Group - 2024

	Opening balance	Addition	Unwinding of discount on provisions	Realised	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	22	-	-	-	-	-	6	28
Environmental rehabilitation	278	-	-	-	-	-	34	312
Onerous contract	43	-	-	-	-	(3)	-	40
Product warranties	53	-	4	(2)	-	(16)	11	50
Restructuring	1	-	-	(0)	-	(77)	-	(76)
Counter trade	115	-	-	(0)	-	-	13	128
	512	-	4	(3)	-	(96)	64	481

Reconciliation of provisions - Group - 2023

	Opening balance	Addition	Unwinding of discount on provisions	Prior Period Error	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	(2)	4	-	20	-	-	-	22
Environmental rehabilitation	250	-	-	-	-	-	28	278
Onerous contract	47	-	-	-	-	-	(4)	43
Product warranties	140	-	-	-	(78)	(15)	6	53
Restructuring	1	-	-	-	-	-	-	1
Counter trade	115	-	-	-	-	-	-	115
	551	4	-	20	(78)	(15)	30	512

Reconciliation of provisions - Group - 2022

	Opening balance	Addition	Unwinding of discount on provisions	Prior Period Error	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	(2)	-	-	-	-	-	-	(2)
Environmental rehabilitation	247	10	-	-	-	-	(7)	250
Onerous contract	3	44	-	-	-	-	-	47
Product warranties	195	-	-	-	-	-	(55)	140
Restructuring	1	-	-	-	-	-	-	1
Counter trade	115	-	-	-	-	-	-	115
	559	54	-	-	-	-	(62)	551

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Reconciliation of provisions - Company - 2024

	Opening balance	Addition	Unwinding of discount on provisions	Prior Period Error	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	18	-	-	-	-	-	6	24
Environmental rehabilitation	278	-	-	-	-	-	34	312
Onerous contract	43	-	-	-	-	(3)	-	40
Product warranties	48	-	4	(2)	-	(9)	11	52
Restructuring	1	-	-	-	-	-	-	1
Counter trade	34	-	-	(0)	-	-	13	47
	422	-	4	(3)	-	(12)	64	475

Reconciliation of provisions - Company - 2023

	Opening balance	Addition	Unwinding of discount on provisions	Prior Period Error	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	-	4	-	14	-	-	-	18
Environmental rehabilitation	250	-	-	-	-	-	28	278
Onerous contract	47	-	-	-	(4)	-	-	43
Product warranties	133	-	-	-	(85)	-	-	48
Restructuring	1	-	-	-	-	-	-	1
Counter trade	34	-	-	-	-	-	-	34
	465	4	-	14	(89)	-	28	422

Reconciliation of provisions - Company - 2022

	Opening balance	Addition	Unwinding of discount on provisions	Prior Period Error	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	-	-	-	-	-	-	-	-
Environmental rehabilitation	247	3	-	-	-	-	-	250
Onerous contract	3	46	-	-	(2)	-	-	47
Product warranties	188	1	-	-	-	-	(56)	133
Restructuring	1	-	-	-	-	-	-	1
Counter trade	34	-	-	-	-	-	-	34
	473	50	-	-	(2)	-	(56)	465

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 ZAR Rm	2023 ZAR Rm	2022 ZAR Rm	2024 ZAR Rm	2023 ZAR Rm	2022 ZAR Rm
Non-current liabilities	348	385	389	345	305	308
Current liabilities	139	126	161	136	116	157
Subtotal	487	511	550	481	421	465

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision has been estimated based on historical warranty data associated with similar products and services. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Countertrade

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

Environmental 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 group activities.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
21. ADVANCE PAYMENTS RECEIVED						
Non-current advance payments received	135	136	2,085	135	136	2,085
Current advance payments received	2,270	2,310	487	2,190	2,240	410
Total advance payments received	2,406	2,446	2,572	2,325	2,376	2,495

The carrying amount of advance payments received expected to be settled as follows:

Less than three months	2	-	-	2	-	-
Between three and twelve months	2,268	2,310	487	2,188	2,240	410
Between one and two years	135	136	11	135	136	11
Between two and three years	-	-	101	-	-	101
Between three and five years	-	-	297	-	-	297
More than five years	-	-	1,676	-	-	1,676
	2,406	2,446	2,572	2,325	2,376	2,495

22. TRADE AND OTHER PAYABLES

Financial liabilities

Trade payables	648	884	1,049	588	815	780
Trade payables: related parties	-	59	-	-	19	-
Sundry personnel associated	59	457	633	59	457	633
Accrued leave pay	65	78	87	58	65	75
Accrued bonus	5	6	7	5	6	7
Trade accruals	68	22	18	49	12	8
Sundry accruals	193	934	434	187	847	264
Accrued audit fees	12	10	10	5	3	3
Deposits received	5	8	8	5	8	8
Operating lease smoothing due rent paid	5	5	5	5	5	5
Prior Period error	-	(57)	(33)	-	32	9
	-	-	-	-	-	-
Non-financial instruments	-	-	-	-	-	-
Amounts due to customers for work invoiced not yet performed	123	123	123	123	123	123
VAT	36	67	96	36	67	96
	1,219	2,596	2,437	1,121	2,459	2,011

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

At amortised cost	1,060	2,463	2,251	962	2,237	1,783
Non-financial instruments	159	190	219	165	190	219
	1,219	2,653	2,470	1,127	2,427	2,002

Exposure to currency risk

The net carrying amounts, in Rand, of trade and other payables, excluding non-financial instruments, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amount at the closing rate at the reporting date.

Rand Amount	1,219	2,463	2,251	1,127	2,237	1,783
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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

GROUP			COMPANY		
2024	2023	2022	2024	2023	2022
Rm	Rm	Rm	Rm	Rm	Rm

23. NON-CURRENT ASSETS HELD FOR SALE

As part of Denel's turnaround strategy and government guarantee conditions with regards to the disposal of non-core assets, DVS's board of directors approved on the 28th of September 2022 the disposal of Gear Ratio, a business unit of Denel vehicle systems as the unit was identified as a non-core asset.

The planned disposal of Gear ratio meets the definition of a discontinued operation in terms of IFRS 5 Non-current assets classified held for sale as:

- > Gear ratio is a component of Denel vehicle system: its operations and cashflows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity and
- > Gear ratio represents a separate major line of business or geographical area of operations.

The discontinued operation meets the criteria to be classified as held for sale as:

- > The carrying amount of Gear ratio's net assets will be recovered principally through a sale transaction rather than through continued use. The business unit is available for immediate sale in its present condition and its sale is highly probable.
- > The appropriate level of management is committed to the plan to sell the business unit and an active program to locate a buyer and complete the plan has been initiated. The board of directors and the minister of finance have approved the plan to sell Gear ratio and a bidding process to locate buyer and complete plan has been initiated.
- > The business unit was actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale was marketed through a bidding process where the highest bidder was selected as a prospective buyer.
- > It is unlikely that significant changes to the plan will be made as the disposal is inline with Section 54(2)(d) of the Public Finance Management Act (PFMA), Denel's turnaround strategy and government guarantee conditions and the appropriate levels of approval of the Investment is Associates- Hensoldt and investment property in RDM and Hensoldt have been listed for sale by management. As at 31 March 2023, management was still holding on to the position that these investments are still in the process to be disposed off.

Assets and liabilities	GROUP			COMPANY		
	2024	2023	2022	2024	2023	2022
Non-current assets held for sale	Rm	Rm	Rm	Rm	Rm	Rm
Property, plant and equipment	-	40	145	-	-	-
Investment in Associates - Hensoldt	-	253	56	-	56	56
Investment property	-	692	-	-	692	-
Interdivision Loans	-	-	-	-	-	-
Prepayments made	-	5	-	-	-	-
Cash and short-term deposits	-	12	-	-	-	-
Trade and other receivables	-	2	-	-	-	-
Other assets (Net)	-	6	-	-	-	-
Prior Period Error		(933)			(692)	
	-	77	201	-	56	56

Liabilities of disposal groups

Advanced payments received	-	10	-	-	-	-
Non-current provisions	-	2	-	-	-	-
Trade and other payables	-	36	-	-	-	-
	-	48	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
24. REVENUE						
Revenue from contracts with customers						
Sale of goods	1,108	887	901	1,146	1,265	1,180
Interest on revenue	49	408	346			
Rendering of services	168	-	-	168	-	-
	1,325	1,295	1,247	1,314	1,265	1,180
Revenue other than from contracts with customers						
Rental Income		170	140		170	140
Total Revenue	1,325	1,465	1,387	1,314	1,435	1,320
Prior period error	-	(276)	(250)		(276)	(250)
Restated balance	1,325	1,189	1,137	1,314	1,159	1,070
Revenue from contracts with customers						
At a point in time	628	711	883	628	681	816
Over time	697	478	254	686	478	254
	1,325	1,189	1,137	1,314	1,159	1,070
	-	-	-	-	-	-
Sale of goods						
Sale of goods - Domestic	851	775	748	851	751	724
Sale of goods - Foreign	17	10	43	17	-	-
Sundry internal	-	-	-	-	-	-
Interest on revenue	457	404	346	447	408	346
	1,325	1,189	1,137	1,315	1,159	1,070

Other revenue

Future revenue

Future revenue from long-term customer contracts

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

Order backlog duration:

Order backlog duration

1 Year	1,782	1,571	698	1,782	1,571	698
1 - 2 Years	1,411	1,163	469	1,411	1,163	469
2 - 3 Years	1,251	923	906	1,251	923	906
3 - 4 Years	620	551	689	620	551	689
	5,064	4,208	2,762	5,064	4,208	2,762

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

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:

- > Aerospace Systems: Denel Dynamics and Denel Overberg Test Range. The products include the design, development and manufacture of missiles and precision guided weapons. Also included is the test range services.
- > Aviation: Denel Aviation. Provides end to end aeronautical solutions.
- > Land Solutions: Denel Land Systems, Denel Vehicle Systems (Pty) Ltd. The design, manufacture and integrator of vehicle solutions.
- > Munitions: Pretoria Metal Pressings. Manufacture and design of ammunition.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Aerospace Systems		Aeronautics		Land Solutions		Munitions		Non-core		Consolidation entries		Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group - 2024													
Segment revenue	602	-	-	503	225	-	-	-	-	-	-	-	1,331
Revenue from external customers	602	-	-	501	221	-	-	-	-	-	-	-	1,324
Intergroup revenue	1	-	-	2	4	-	-	-	-	-	-	-	6
Contribution	45%	0%	38%	38%	17%	0%	0%	0%	0%	0%	0%	0%	100%
Segment operating profit/(loss)	134	-	(355)	(67)	(139)	(17)	(444)						(444)
Net finance income/(costs)	(11)	-	(326)	(16)	194	7	(152)						(152)
Share of profit in associated companies	-	-	-	-	-	125	-						125
Income tax expense	-	-	-	-	-	-	-						-
Net (loss)/profit for the year	123	-	(681)	(84)	55	(471)							(471)
Segment assets	663	-	3,415	602	10,080	(6,970)	7,789						7,789
Deferred tax assets	-	-	-	-	-	3	-						3
Total assets	663	-	3,415	602	10,080	(6,967)	7,792						7,792
Segment liabilities	445	-	5,984	1,063	1,523	(3,010)	6,004						6,004
Deferred tax liabilities	-	-	-	-	-	(3)	(3)						(3)
Total liabilities	445	-	5,984	1,063	1,523	(3,013)	6,001						6,001
Capital expenditure	-	-	0	-	-	-	0						0
Impairment losses raised/(reversed)	2	-	6	13	-	-	21						21
Depreciation/amortisation i.r.o.segment assets	13	-	12	6	1	-	33						33
Significant non-cash items	-	-	(216)	-	-	-	(216)						(216)
Fair value adjustment	-	-	(4)	-	-	-	(4)						(4)
Group - 2023													
Reported as:													
Segment revenue	402	407	323	124	275	(63)	1,468						1,468
Revenue from external customers	351	405	318	124	264	-	1,462						1,462
Intergroup revenue	51	2	5	-	11	(63)	6						6
Contribution	24%	28%	22%	8%	18%	0%	100%						100%
Segment operating profit/(loss)	(48)	9	(370)	(164)	869	(2)	294						294
Net finance income/(costs)	(54)	13	(328)	(27)	(57)	3	(450)						(450)
Share of profit in associated companies	-	-	-	-	-	74	74						74
Income tax expense	-	(1)	(9)	-	-	(2)	(12)						(12)
Net (loss)/profit for the year	(102)	21	(707)	(191)	812	73	(94)						(94)
Segment assets	928	866	2,638	434	11,069	(5,662)	10,273						10,273
Deferred tax assets	-	1	272	-	78	-	351						351
Total assets	928	867	2,910	434	11,147	(5,662)	10,624						10,624

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Aerospace Systems		Aeronautics		Land Solutions		Munitions		Non-core		Consolidation entries		Total	
	Rm		Rm		Rm		Rm		Rm		Rm		Rm	
Segment liabilities	1,683		-		6,076		596		2,097		(2,866)		7,586	
Deferred tax liabilities	-		-		-		-		-		4		4	
Total liabilities	1,683		-		6,076		596		2,097		(2,862)		7,590	
Capital expenditure	16		-		-		-		2		-		18	
Impairment losses raised/(reversed)	14		10		29		2		-		-		55	
Depreciation/amortisation i.r.o.segment assets	17		8		12		6		1		-		44	
Significant non-cash items	-		(26)		152		-		-		-		126	
Fair value adjustment	-		-		-		-		44		-		44	
Prior Period Error														
Segment revenue	0		0		0		0		(276)		(4)		(281)	
Revenue from external customers	-		-		-		-		(276)		(4)		(281)	
Intergroup revenue													0	
Contribution	24%		28%		22%		8%		18%		0%		100%	
Segment operating profit/(loss)	112		0		0		0		(276)		457		293	
Net finance income/(costs)			0		0		0		4		15		18	
Share of profit in associated companies													0	
Income tax expense													0	
Net (loss)/profit for the year	111		0		0		0		(272)		472		311	
Segment assets			(47)		-		-		-		91		44	
Deferred tax assets													0	
Total assets			(47)								91		44	
Segment liabilities			2.00		0		8		0		6		16	
Deferred tax liabilities													0	
Total liabilities			2		-		8		-		6		16	
Capital expenditure													0	
Impairment losses raised/(reversed)													0	
Depreciation/amortisation i.r.o.segment assets													0	
Significant non-cash items													0	
Fair value adjustment													-	

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Aerospace Systems		Aeronautics		Land Solutions		Munitions		Non-core		Consolidation entries		Total	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Restated														
Segment revenue	402	406	323	124	-	-	-	-	-	(67)	1,187			1,187
Revenue from external customers	351	404	318	124	(12)	(4)	1,181							1,181
Intergroup revenue	51	2	5	-	11	(63)	6							6
Contribution	24%	28%	22%	8%	18%	0%	100%							
Segment operating profit/(loss)	64	9	(370)	(164)	593	455	587							587
Net finance income/(costs)	(55)	13	(328)	(27)	(53)	18.00	(432.00)							(432.00)
Share of profit in associated companies	-	-	-	-	-	74	74							74
Income tax expense	-	-	-9	-	-	(2)	(12)							(12)
Net (loss)/profit for the year	9	21	(707)	(191)	540	545	217							217
Segment assets	928	819	2,638	434	11,069	(5,571)	10,317							10,317
Deferred tax assets	-	1	272	-	78	-	351							351
Total assets	928	820	2,910	434	11,147	(5,571)	10,668							10,668
Segment liabilities	1,683	2.00	6,076	604	2,097	(2,860)	7,602							7,602
Deferred tax liabilities	-	-	-	-	-	4	4							4
Total liabilities	1,683	2	6,076	604	2,097	(2,856)	7,606							7,606
Capital expenditure	16	-	-	-	2	-	18							18
Impairment losses raised/(reversed)	14	10	29	2	-	-	55							55
Depreciation/amortisation i.r.o.segment assets	17	8	12	6	1	-	44							44
Significant non-cash items	-	-26	152	-	-	-	126							126
Fair value adjustment	-	-	-	-	44	-	44							44
Group - 2022														
Reported as:														
Segment revenue	141	417	425	215	245	(57)	1,386							1,386
Revenue from external customers	138	417	408	215	207	1.00	1,386							1,386
Intergroup revenue	3	-	17	-	38	-58	-							-
Contribution	10%	30%	29%	16%	15%	-	100%							100%
Segment operating profit/(loss)	(228)	(58)	(295)	(93)	(87)	16	(745)							(745)
Net finance income/(costs)	(12)	4	(196)	(12)	(35)	(114)	(365)							(365)
Share of profit in associated companies	-	-	-	-	-	86	86							86
Income tax expense	-	-	34	-	-	-	34							34
Net (loss)/profit for the year	(240)	(54)	(457)	(105)	(122)	(12)	(990)							(990)
Segment assets	888	781	2,124	472	2,067	196	6,528							6,528
Deferred tax assets	-	-	246	-	-	-	246							246
Total assets	888	781	2,370	472	2,067	196	6,774							6,774

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Aerospace Systems		Aeronautics		Land Solutions		Munitions		Non-core		Consolidation entries		Total	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Segment liabilities	1,551	350.00	4,798	442	937	(472)	7,606							
Deferred tax liabilities	-	-	-	-	-	2	-							
Total liabilities	1,551	350	4,798	442	937	-470	7,608							
Capital expenditure	17	8	12	7	38	-	82							
Impairment losses raised/(reversed)	-	-	-	-	-	-	-							
Depreciation/amortisation i.r.o.segment assets	-	-	-	-	-	-	-							
Significant non-cash items	-	-	-	-	-	-	-							
Fair value adjustment	-	24	130	-	35	-	189							
Segment revenue	0	0	0	0	(245)	-5	(250)							
Revenue from external customers	0	0	0	0	(245)	-5	(250)							
Intergroup revenue														
Contribution	10%	30%	29%	16%	15%	-	100%							
Segment operating profit/(loss)	0	0	0	0	11	3	14							
Net finance income/(costs)														
Share of profit in associated companies														
Income tax expense														
Net (loss)/profit for the year	0	0	0	0	11	3	14							
Segment assets						290	290							
Deferred tax assets														
Total assets	-	-	-	-	-	290	290							
Segment liabilities		(5.42)				4.00	(1)							
Deferred tax liabilities							0							
Total liabilities	-	(5)	-	-	-	4	(1)							
Capital expenditure							0							
Impairment losses raised/(reversed)							-							
Depreciation/amortisation i.r.o.segment assets							-							
Significant non-cash items							-							
Fair value adjustment							-							

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Aerospace Systems		Aeronautics		Land Solutions		Munitions		Non-core		Consolidation entries		Total	
	Rm		Rm		Rm		Rm		Rm		Rm		Rm	
Segment revenue	141		417		425		215		0		(62)		1,136	
Revenue from external customers	138		417		408		215		(38)		(4)		1,136	
Inter-group revenue	3		0		17		0		38		(58)		0	
Contribution	10%		30%		29%		16%		15%		-		100%	
Segment operating profit/(loss)	(228)		(58)		(295)		(93)		(76)		19		(731)	
Net finance income/(costs)	(12)		4		(196)		(12)		(35)		(114)		(365)	
Share of profit in associated companies	-		-		-		-		-		86		86	
Income tax expense	-		-		34		-		-		-		34	
Net (loss)/profit for the year	(240)		(54)		(457)		(105)		(111)		(9)		(976)	
Segment assets	888		781		2,124		472		2,067		486		6,818	
Deferred tax assets	-		-		246		-		-		-		246	
Total assets	888		781		2,370		472		2,067		486		7,064	
Segment liabilities	1,551		344.58		4,798		442		937		(468)		7,605	
Deferred tax liabilities	-		-		-		-		-		2		2	
Total liabilities	1,551		345		4,798		442		937		(466)		7,607	
Capital expenditure	17		8		12		7		38		-		82	
Impairment losses raised/(reversed)	-		-		-		-		-		-		-	
Depreciation/amortisation i.r.o.segment assets	-		-		-		-		-		-		-	
Significant non-cash items	-		-		-		-		-		-		-	
Fair value adjustment	-		24		130		-		35		-		189	

Restated

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
26. COST OF SALES						
Sale of goods	985	1,286	1,400	970	1,282	1,350
Prior Period Error		-288	-234		-284	-234
Restated	985	998	1,166	970	998	1,116
Manufactured goods:						
Raw materials consumed	490	-	-	475	-	-
Employee costs	435	-	-	435	-	-
Manufacturing expenses	60	-	-	60	-	-
	985	998	1,166	970	998	1,116

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
27. OTHER OPERATING INCOME						
Administration and management fees received	-	2	-	-	1	-
Royalties	2	1	-	2	-	-
Rent Income (prior period error)	146	274	245	147	276	257
Bad debts recovered	-	-	1	-	-	1
Fair value adjustment on investment properties	66	1	4	66	-	-
Net gains/(losses) on financial instruments	60	-	-	60	-	-
Grants received	-	7	1	-	7	1
Other income	13	1,152	123	11	1,152	123
		-	-		-	-
	286	1,437	374	285	1,436	382

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
28. OTHER OPERATING GAINS (LOSSES)						
Gains (losses) on disposals, scrappings and settlements						
Property, plant and equipment	-	-	-	-	-	-
	-	-	-	-	-	-
Foreign exchange gains (losses)	-	-	-	-	-	-
Net foreign exchange loss	60	(42)	(38)	60	(42)	(38)
Total other operating gains (losses)	60	(42)	(38)	60	(42)	(38)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

2024 Rm	GROUP			COMPANY		
	2023 Rm	2022 Rm	2021 Rm	2024 Rm	2023 Rm	2022 Rm

29. OPERATING PROFIT (LOSS)

Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:

Audit fees

Auditor's remuneration - external	57	10	12	51	10	12
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Remuneration, other than to employees

Administrative and managerial services	0	2	1	0	2	0
Consulting and professional services	39	46	29	39	46	28
	39	48	30	39	48	28

Employee costs

Salaries, wages, bonuses and other benefits	454	443	477	395	359	329
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Leases

Variable lease payments	23	10	3	23	10	3
Short-term leases	2	0	1	1	0	0
Leases of low value assets	-	0	1	-	0	1
	25	10	5	24	10	4

Less: Lease charges included in cost of merchandise sold and inventories

	-	-	-	-	-	-
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Total lease expenses

Depreciation and amortisation

Depreciation of property, plant and equipment	18	16	20	13	10	13
Depreciation of right-of-use assets	2	2	0	2	2	0
Amortisation of intangible assets	4	4	-	4	2	0
Total depreciation and amortisation	24	22	19	19	14	13

Impairment losses

Depreciation of property, plant and equipment	-	-	(5)	-	-	-
Investments in subsidiaries, joint arrangements and associates	11	0	0	411	0	8
Impairment non-interest bearing receivables	-	(4)	-	-	(4)	-
	11	(4)	(5)	411	(4)	8

2024 Rm	GROUP			COMPANY		
	2023 Rm	2022 Rm	2021 Rm	2024 Rm	2023 Rm	2022 Rm

30. INVESTMENT INCOME

Investments in financial assets:

Bank and other cash	164	-	-	163	-	-
Other financial assets	3	23	12	2	23	10
Total interest income	166	23	12	166	23	10

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Investment income on financial instruments which are available for sale or held to maturity are only presented for comparative purposes for financial instruments held in the prior reporting period but which were disposed of prior to the beginning current reporting period, which is the date of adoption of IFRS 9 Financial Instruments. Investment income on all other financial assets has been reclassified in compliance with IFRS 9.

	GROUP			COMPA-NY		
	2024	2023	2022	2024	2023	2022
	Rm	Rm	Rm	Rm	Rm	Rm

31. FINANCE COSTS

Lease liabilities		-	-		-	-
Current borrowings	53	2	-	53	-	-
Other	3	-	(6)	0	-	-
Unwinding of discount on provisions and other liabilities	39	32	24	39	32	24
Finance cost on significant finance component	213	223	200	213	223	200
Finance costs on financial liabilities	10	193	159	6	194	159
Total finance costs	318	450	377	311	449	383

Investment income on financial instruments which are available for sale or held to maturity are only presented for comparative purposes for financial instruments held in the prior reporting period but which were disposed of prior to the beginning current reporting period, which is the date of adoption of IFRS 9 Financial Instruments. Investment income on all other financial assets has been reclassified in compliance with IFRS 9.

	GROUP			COMPANY		
	2024	2023	2022	2024	2023	2022
	Rm	Rm	Rm	Rm	Rm	Rm

32. TAXATION

Major components of the tax expense (income)

Current						
Local income tax - current period	-	1	-	-	1	-
Tax expense	-	-	(63)	-	-	(55)
Current tax (impairment of the current tax receivable)	18	1	-	-	1	-
	18	2	(63)	-	2	(55)
Deferred						
Local income tax - current period	-	10	(34)	-	2	-
Current tax	-	-	-	-	-	-
	18	12	(97)	-	4	(55)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28%	28%	28%	28%	28%	28%
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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPA-NY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
33. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES						
Depreciation						
Property, plant and equipment	17	16	20	12	10	13
Right-of-use assets	2	2	-	2	2	-
	18	18	20	13	12	13
Amortisation						
Intangible assets	4	4	1	4	2	-
	4	4	1	4	2	-
Impairment						
Financial Instruments	11	-	5	411	-	-
Investments in subsidiaries, joint arrangements and associates	-	-	-	-	-	8
Impairment non-interest bearing receivables	-	4	-	-	4	-
Others	0	-	-	0	-	-
	12	4	5	411	4	8
Total depreciation, amortisation and impairment						
Depreciation	18	18	20	13	12	13
Amortisation	4	4	-1	4	2	-
Impairment losses	12	(4)	(5)	411	(4)	8
		-	-		-	-
	34	18	14	428	10	21

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
34. CASH GENERATED FROM/(USED IN) OPERATIONS						
Loss before taxation	(471)	(56)	(1,025)	(895)	(88)	(935)
Adjustments for:						
Depreciation, amortisation, impairments and reversals of impairments	23	149	58	23	59	52
Gains on exchange differences	-	-	-	-	-	-
Fair value adjustments	(66)	(44)	(35)	(66)	(44)	(35)
Impairment raised/reversed	-	51	12	-	79	14
Disposal of PPE	-	(2)	(2)	-	(2)	-
Loss (Gains) on fair value adjustments	-	-	-	-	-	-
Net impairments and movements in credit loss allowances	-	29	-	-	-	-
Share of profit or loss of equity accounted investments	(60)	(74)	(86)	(60)	-	-
Profit on derecognition of investment	-	-	-	-	-	-
Foreign gains and losses	115	(60)	(9)	-	(59)	(38)
Adjust for items which are presented separately:						
Interest income	(166)	(23)	(17)	(166)	(23)	(11)
Finance costs	152	450	382	152	449	383
Changes in working capital:	(1,753)	(64)	1,064	(1,932)	39	941
(Increase) decrease in inventories	(67)	(517)	288	(67)	(517)	244
(Increase) decrease in trade and other receivables	(57)	337	(272)	(57)	144	(147)
(Increase) decrease in prepayments	(40)	(82)	121	(40)	(86)	113
(Increase) decrease in contract assets	-	(353)	349	-	(353)	349
Increase (decrease) in trade and other payables	(1,376)	185	649	(1,376)	469	450
Increase (decrease) in contract liabilities	89	343	(59)	(89)	351	(60)
Loan receivable	(277)	-	(2)	(277)	(168)	-
Movement in provisions	(25)	23	(10)	(25)	199	(8)
					-	-
	(2,227)	356	342	(2,945)	410	371

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
35. TAX (PAID) REFUNDED						
Balance at beginning of the year	-	-	11	-	-	-
Current tax recognised in profit or loss	-	(2)	63	-	(2)	55
Balance at end of the year	-	-	(13)	-	-	-
Total finance costs	-	(2)	61	-	(2)	55

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 Rm	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm
36. CONTINGENT LIABILITIES						
Advance payment guarantees	1,982	2,431	2,375	1,982	2,431	2,368
Guarantees to banks for credit facilities of subsidiaries	-	4,000	4,000	-	4,000	4,000
Guarantees to local authorities	1	4	15	1	4	2
Participating guarantees	-	-	-	-	-	-
Performance guarantees	227	598	538	227	598	525
Other guarantees	139	133	146	139	133	146
Total of guarantees issued	2,348	7,166	7,074	2,348	7,166	7,040
Guarantees issued on behalf of associated companies	(61)	(4,057)	(4,051)	(61)	(4,057)	(4,047)
Advance payment guarantees	(18)	(17)	(14)	(18)	(17)	(14)
Guarantees to banks for credit facilities of subsidiaries	-	(4,000)	(4,000)	-	(4,000)	(4,000)
Performance guarantees	(43)	(40)	(33)	(43)	(40)	(33)
Other guarantees	(1)	-	(4)	(1)	-	-
	2,287	3,109	3,023	2,287	3,109	2,993

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 2023/24 R348m (2022/23 R348m, 2021/22: R506m). 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 aggregate amount of significant claims lodged against the company not specifically provided for is 2023/24 R348m (2022/23 R348m, 2021/22: R506m). 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 has received a liquidation application from one of its suppliers as a result of non-payment for work-in progress and loss of profits. The parties are in discussions in order to resolve this matter.

Site restoration

Provision for site restoration has been calculated and raised, based on certain key assumptions. A contingency of 2023/24: 15% (2022/23: 15%, 2021/22: 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 ordines 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 2023/24: R41.6m (2022/23: R41.6m, 2021/22: R37.4m) for both, group and company.

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 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

The table below summarises the group's countertrade position.

	2024			2023			2022		
	Export contracts R'm	Local defense contracts R'm	Total R'm	Export contracts R'm	Local defense contracts R'm	Total R'm	Export contracts R'm	Local defense contracts R'm	Total R'm
Countertrade obligation									
Total countertrade obligation	29	-	29	7,151	9,332	16,483	6,457	7,826	14,283
Obligation discharged	-	-	-	(6,332)	(2,459)	(8,791)	(5,310)	(2,062)	(7,372)
Obligation discharged	29	-	29	819	6,873	7,692	1,147	5,764	6,911
To be settled by third party	-	-	-	-	(4,437)	(4,437)	-	(3,721)	(3,721)
Net obligation of the group	29	-	29	819	2,436	3,255	1,147	2,043	3,190
Penalties									
Maximum penalty for noncompliance	14	-	14	13	342	355	11	287	298
Third party obligation									
Net group exposure	14	-	14	13	120	133	11	101	112
Guarantees issued									
Group issued	43	-	43	56	114	170	46	95	141
Third party guarantees	-	-	-	27	-	27	23	-	23
Provision to settle obligation	43	-	43	83	114	197	69	95	164

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
37. RELATED PARTIES								
GROUP								
2024								
Advance payments made	20	-	-	3	-	-	-	-
Advance payments received	-	-	-	-	-	-	2,061	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	-	1,886	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	4,000	-	61	-	-	-	-
Interest paid	127	-	-	-	-	-	6	-
Interest received	137	-	-	-	-	-	-	-
Lease payments	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	671	0	-	12	-	20	327	1
Outstanding balances receivable	2,449	-	-	45	-	14	73	-
Penalties paid	-	-	-	-	-	-	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Provision for penalties received	-	-	-	-	-	-	9	-
Purchases of goods	4	-	-	0	-	-	2	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	7	-	-	46	-	44	128	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	-	-	-	-	-	0	23	-
Services rendered	0	-	-	-	-	103	3	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-
Transfers under licence agreements	-	-	-	-	-	-	-	-
	3,414	4,000	-	167	-	181	4,517	1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Related parties								
GROUP								
2023								
Advance payments made	24	17	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2,073	-	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	7	-	-	3	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	2,025	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	3	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	32	-	-	-	-	-	-	-
Interest received	42	-	-	-	-	-	-	-
Lease payments	3	-	-	0	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	304	9	-	7	4	27	13	0
Outstanding balances receivable	1,324	2	-	44	8	53	13	1
Penalties paid	-	-	-	-	-	8	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Purchases of goods	3	-	-	-	-	-	-	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	9	-	-	12	-	13	119	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	21	-	-	-	-	0	8	-
Services rendered	0	-	-	-	-	-	-	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-
	1,770	28	-	64	12	4,202	153	1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Related parties								
GROUP								
2022								
Advance payments made	24	17	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2,073	-	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	7	-	-	3	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	2,025	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	3	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	32	-	-	-	-	-	-	-
Interest received	42	-	-	-	-	-	-	-
Lease payments	3	-	-	0	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	304	9	-	7	4	27	13	0
Outstanding balances receivable	1,324	2	-	44	8	53	13	1
Penalties paid	-	-	-	-	-	8	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Purchases of goods	3	-	-	-	-	-	-	-
Purchases of properties and other assets	9	-	-	12	-	13	119	-
Sales of goods	-	-	-	-	-	-	-	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	21	-	-	-	-	0	8	-
Services rendered	0	-	-	-	-	-	-	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Transfers under finance agreements	1,770	28	-	64	12	4,202	153	-
Related parties Company 2024								1
Advance payments made	20	-	-	3	-	-	-	-
Advance payments received	-	-	-	-	-	-	2,061	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	-	1,886	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	4,000	-	61	-	-	-	-
Interest paid	127	-	-	-	-	-	6	-
Interest received	137	-	-	-	-	-	-	-
Lease payments	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	671	0	-	12	-	20	327	1
Outstanding balances receivable	2,449	-	-	45	-	14	73	-
Penalties paid	-	-	-	-	-	-	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Provision for penalties received	-	-	-	-	-	-	9	-
Purchases of goods	4	-	-	0	-	-	2	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	7	-	-	46	-	44	128	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	-	-	-	-	-	0	23	-
Services rendered	0	-	-	-	-	103	3	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Transfers under licence agreements	3,414	4,000	-	167	-	181	4,517	-
Related parties Company 2023	24	17	-	-	-	-	-	-
Advance payments made	-	-	-	-	-	2,073	-	-
Advance payments received	-	-	-	-	-	-	-	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	7	-	-	3	-	-	-	-
Dividends received	-	4,000	-	-	-	2,025	-	-
Guarantees issued to related parties	-	-	-	-	-	3	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	32	-	-	-	-	-	-	-
Interest received	42	-	-	-	-	-	-	-
Lease payments	3	-	-	0	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	304	9	-	7	4	27	13	0
Outstanding balances receivable	1,324	2	-	44	8	53	13	1
Penalties paid	-	-	-	-	-	8	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Purchases of goods	3	-	-	-	-	-	-	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	9	-	-	12	-	13	119	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	21	-	-	-	-	0	8	-
Services rendered	0	-	-	-	-	-	-	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Denel SOC Ltd and subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-
	1,770	4,028	-	64	12	4,202	153	1
Related parties Company 2022								
Advance payments made	24	17	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2,073	-	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	7	-	-	3	-	-	-	-
Guarantees issued to related parties	-	4,000	-	-	-	2,025	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	3	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	32	-	-	-	-	-	-	-
Interest received	42	-	-	-	-	-	-	-
Lease payments	3	-	-	0	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	304	9	-	7	4	27	13	0
Outstanding balances receivable	1,324	2	-	44	8	53	13	1
Penalties paid	-	-	-	-	-	8	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Purchases of goods	3	-	-	-	-	-	-	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	9	-	-	12	-	13	119	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	21	-	-	-	-	0	8	-
Services rendered	0	-	-	-	-	-	-	-
Settlement of liabilities on behalf of another related party	-	-	-	-	-	-	-	-
Settlement of liabilities on behalf of the entity	-	-	-	-	-	-	-	-
Transfers under finance agreements	-	-	-	-	-	-	-	-
	1,770	4,028	-	64	12	4,202	153	1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	2024		2023		2022				
	R'000	Total	R'000	Total	R'000	Total			
	Salaries contribution		Medical aid contribution		Other contribution	Short-term incentive	Lump sum		
	2,383	238	153	400	-	3,173	1,842	-	
	1,507	150	147	182		1,986	1,938	1,718	
	462	54	-	6		522	-		
	2,598	255	217	30		3,100	3,143	2,968	
	6,951	696	516	617	-	8,780	6,923	4,686	
38. RELATED PARTIES (CONTINUED)									
Amounts paid/accrued to executives of the group									
Executive directors									
Mr M Kgobe 2									
MS T Sabela 3									
Mr OT Monaheng 4									
M W Hlakoane 1									
Sub-total									
1 Appointed as Acting GCEO until 30 August 2022, thereafter remained as GCOO									
2 Appointed as Acting GCEO from 1 September 2022									
3 Appointed as Interim GCEO from March 2021									
4 Appointed as GCEO from 1 February 2024									
5 Other includes various allowances									
Amounts paid/accrued to non-executives of the group									
Non-Executive directors									
Mrs GT Serobe									
Mr TH Magazi									
Lt Gen. (rtd) TT Matanzima									
Mr MM Minisi									
Ms AMSS Mokgabudi									
Ms MMT Ramano									
Sub-total									

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

Overview

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

- > Credit risk;
- > Liquidity risk; and
- > Market risk

Information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing these risks are included in this note. The group's management of capital is also discussed. Further quantitative disclosures are included throughout the consolidated annual financial statements.

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

The roles and responsibilities of the Audit & Risk 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

2024 Rm	GROUP		COMPANY		
	2023 Rm	2022 Rm	2024 Rm	2023 Rm	2022 Rm

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

40.1. Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the group's receivables from customers (loans receivable, trade and sundry receivables) and its centralised treasury activities (derivative financial instruments and cash and cash equivalents).

Receivables from customers

The Audit & Risk committee of the board has an established policy for the management of credit risk arising on receivables from customers. Under this policy the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Divisions and subsidiaries are required to review the following before entering into a contract or submitting a proposal to a potential client:

- > The potential client's compliance with statutory and regulatory conditions;
- > The political risk of the potential client's country;
- > The previous business record that the existing client had with entities within the group (includes but is not limited to payment history); and
- > Obtain the most recent credit rating from the group's treasury department, of the country that the potential customer operates in. Countries are graded by major international banks and these grading are published on a regular basis. The group uses the international publication, "Institutional investor" as a basis for its country risk assessments.

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

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

Financial instruments managed by the group's treasury function

The Audit & Risk 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. Various rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with certain counterparties, usually banks with F1 and F1 + shortterm ratings, AA long-term ratings and a minimum of R2bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1 + rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the GCFO.

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:

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

GROUP	2024			2023			2022		
	Domestic R'm	Foreign R'm	Total R'm	Domestic R'm	Foreign R'm	Total R'm	Domestic R'm	Foreign R'm	Total R'm
Trade receivables	193	140	333	178	6	184	256	332	587
Government and related entities	151	24	176	175	4	179	199	14	213
Non-government entities	42	116	158	3	2	5	57	317	374
Other receivables	120	41	161	374	-	374	529	18	547
Government and related entities	108	-	108	349	-	349	504	-	504
Non-government entities	12	41	53	25	-	25	25	18	43
Interest receivable	6	-	6	2	-	2	-	-	-
Government and related entities	-	-	-	2	-	2	-	-	-
Non-government entities	6	-	6	0	-	0	-	-	-
Loans and receivables	-	-	-	-	-	-	584	-	584
Government and related entities	-	-	-	-	-	-	584	-	584
Non-government entities	-	-	-	-	-	-	-	-	-
Cash and short-term deposits	1,417	6	1,423	3,582	186	3,768	482	32	514
Government and related entities	285	-	285	50	6	56	42	-	42
Non-government entities	1,132	6	1,139	3,532	180	3,712	440	32	472
	1,736	188	1,923	4,136	192	4,328	1,850	382	2,232
COMPANY									
Trade receivables	193	140	333	178	6	184	256	332	587
Government and related entities	151	24	176	175	4	179	199	14	213
Non-government entities	42	116	158	3	2	5	57	317	374
Other receivables	120	41	161	374	-	374	529	18	547
Government and related entities	108	-	108	349	-	349	504	-	504
Non-government entities	12	41	53	25	-	25	25	18	43
Interest receivable	6	-	6	2	-	2	-	-	-
Government and related entities	-	-	-	2	-	2	-	-	-
Non-government entities	6	-	6	0	-	0	-	-	-
Loans and receivables	-	-	-	-	-	-	584	-	584
Government and related entities	-	-	-	-	-	-	584	-	584
Non-government entities	-	-	-	-	-	-	-	-	-
Cash and short-term deposits	1,417	6	1,423	3,578	186	3,764	479	32	511
Government and related entities	285	-	285	45	6	52	42	-	42
Non-government entities	1,132	6	1,139	3,532	180	3,712	437	32	469
	1,736	188	1,923	4,132	192	4,324	1,847	382	2,229

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	2024			2023			2022		
	'Receivables not impaired R'm	Impairment amount R'm	Carrying value R'm	'Receivables not impaired R'm	Impairment amount R'm	Carrying value R'm	'Receivables not impaired R'm	Impairment amount R'm	Carrying value R'm
FINANCIAL RISK MANAGEMENT (CONTINUED)									
40.1. Credit risk (Continued)									
Ageing									
The ageing of financial assets at the reporting date is included below. The ageing categories include:									
GROUP									
Trade receivables	323	(19)	304	38	(5)	38	927	(80)	850
Not past due	148	-	148	13	-	13	37	(3)	37
Less than 30 days	36	-	36	10	-	10	198	-	198
30 to 60 days	25	-	25	2	-	2	6	-	6
61 to 90 days	37	-	37	-	-	-	19	-	19
More than 90 days	77	(19)	58	13	(5)	13	666	(77)	589
Other receivables	115	-	115	363	(363)	2,111	504	(978)	504
Not past due	74	-	74	363	(363)	2,109	501	(978)	501
Less than 30 days	11	-	11	-	-	-	(2)	-	(2)
30 to 60 days	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-
More than 90 days	30	-	30	3	-	3	5	-	5
Interest receivables	6	-	6	-	-	-	-	-	-
Not past due	6	-	6	-	-	-	-	-	-
Less than 30 days	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-
More than 90 days	-	-	-	-	-	-	-	-	-
Cash and short-term deposits	967	-	967	3,375	-	3,375	482	-	482
Not past due	964	-	964	3,375	-	3,375	479	-	479
Less than 30 days	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-
More than 90 days	4	-	4	-	-	-	3	-	3
	1,411	(19)	1,392	5,525	(368)	5,255	1,913	(1,058)	1,835

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

COMPANY	2024			2023			2022				
	'Receivables not impaired R'm	'Receivables impaired R'm	Impairment amount R'm	Carrying value R'm	'Receivables not impaired R'm	'Receivables impaired R'm	Impairment amount R'm	Carrying value R'm	'Receivables not impaired R'm	'Receivables impaired R'm	Impairment amount R'm
Trade receivables	323	-	(19)	304	38	(5)	38	927	3	(80)	850
Not past due	148	-	-	148	13	-	13	37	3	(3)	37
Less than 30 days	36	-	-	36	10	-	10	198	-	-	198
30 to 60 days	25	-	-	25	2	-	2	6	-	-	6
61 to 90 days	37	-	-	37	-	-	-	19	-	-	19
More than 90 days	77	-	(19)	58	13	(5)	13	666	-	(77)	589
Other receivables	115	-	-	115	2,112	(363)	2,111	499	978	(978)	499
Not past due	74	-	-	74	2,109	(363)	2,109	501	978	(978)	501
Less than 30 days	11	-	-	11	-	-	-	(2)	-	-	(2)
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	30	-	-	30	3	-	3	-	-	-	-
Interest receivables	6	-	-	6	1	-	1	-	-	-	-
Not past due	6	-	-	6	1	-	1	-	-	-	-
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	-	-	-	-	-	-	-	-	-	-	-
Cash and short-term deposits	967	-	-	967	3,375	-	3,375	479	-	-	479
Not past due	964	-	-	964	3,375	-	3,375	479	-	-	479
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	4	-	-	4	-	-	-	-	-	-	-
	1,411	-	(19)	1,392	5,526	(368)	5,526	1,905	981	(1,058)	1,828

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

40.2. Liquidity risk

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive cost. This risk may arise when there are mismatches between receipts and payments. As well as when where there are limited funds available to fund that gap.

The group has a centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. This ensures that updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. Further to that the group maintains a range of funding sources and liquidity contingency plans. The group received government guarantees of R4.4mn (2021/22:R4.4bn, 2020/21:R4.4bn) to raise borrowings. These guarantees expire on 30 September 2023.

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.

Carrying amount	Contractual undiscounted cash flows				
	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
R'm	R'm	R'm	R'm	R'm	R'm

LIQUIDITY RISK GROUP

2024

Interest bearing loans and borrowings	119	119	119	-	-	-
Trade and other payables	830	798	102	400	296	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,105	2,105	830	533	10	731
	3,054	3,022	1,051	933	307	731

2023

Interest bearing loans and borrowings	277	393	-	293	100	-
Trade and other payables	2,612	1,647	180	1,064	56	347
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,889	2,040	180	1,357	156	347

2022

Interest bearing loans and borrowings	1,787	1,786	-	1,492	294	-
Trade and other payables	1,769	1,506	150	1,226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,792	2,792	1,145	864	783	-
	6,348	6,084	1,294	3,582	1,207	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY						
2024						
Interest bearing loans and borrowings	119	119	119	-	-	-
Trade and other payables	830	798	102	400	296	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,105	2,105	830	533	10	731
	3,054	3,022	1,051	933	307	731
2023						
Interest bearing loans and borrowings	295	393	-	293	100	-
Trade and other payables	2,474	1,647	180	1,064	56	347
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,769	2,040	180	1,357	156	347
2022						
Interest bearing loans and borrowings	1,787	1,786	-	1,492	294	-
Trade and other payables	1,769	1,506	149	1,226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,792	2,792	1,145	864	783	-
	6,348	6,083	1,294	3,582	1,207	-

Currency risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

40.2. Liquidity risk

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive cost. This risk may arise when there are mismatches between receipts and payments. As well as when where there are limited funds available to fund that gap.

The group has a centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. This ensures that updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. Further to that the group maintains a range of funding sources and liquidity contingency plans. The group received government guarantees of R4.4mn (2021/22:R4.4bn, 2020/21:R4.4bn) to raise borrowings. These guarantees expire on 30 September 2023.

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.

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R'm	R'm	R'm	R'm	R'm	R'm
LIQUIDITY RISK GROUP						
2024						
Interest bearing loans and borrowings	119	119	119	-	-	-
Trade and other payables	830	798	102	400	296	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,105	2,105	830	533	10	731
	3,054	3,022	1,051	933	307	731
2023						
Interest bearing loans and borrowings	277	393	-	293	100	-
Trade and other payables	2,612	1,647	180	1,064	56	347
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,889	2,040	180	1,357	156	347
2022						
Interest bearing loans and borrowings	1,787	1,786	-	1,492	294	-
Trade and other payables	1,769	1,506	150	1,226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,792	2,792	1,145	864	783	-
	6,348	6,084	1,294	3,582	1,207	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY						
2024						
Interest bearing loans and borrowings	119	119	119	-	-	-
Trade and other payables	830	798	102	400	296	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,105	2,105	830	533	10	731
	3,054	3,022	1,051	933	307	731
2023						
Interest bearing loans and borrowings	295	393	-	293	100	-
Trade and other payables	2,474	1,647	180	1,064	56	347
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,769	2,040	180	1,357	156	347
2022						
Interest bearing loans and borrowings	1,787	1,786	-	1,492	294	-
Trade and other payables	1,769	1,506	149	1,226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2,792	2,792	1,145	864	783	-
	6,348	6,083	1,294	3,582	1,207	-

Currency risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

GROUP			COMPANY		
2024	2023	2022	2024	2023	2022
Rm	Rm	Rm	Rm	Rm	Rm

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

40.3. 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 & Risk committee on market risk elements. The report submitted includes important positional and hedge information on currency, interest rate and commodities. In addition, key market risk information is reported to the GFD and executive committee on a quarterly basis. A significant element of the market risk encountered arises from financial instruments that are managed centrally within the Treasury function of the group. These include more complex instruments used for hedging purposes.

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024	2023	2022	2024	2023	2022
	Rm	Rm	Rm	Rm	Rm	Rm
Interest rate risk						
Fixed rate instruments						
Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	17	69	17	-	69	-
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-
Loans and borrowings	-	281	-	-	-	281
Loans and other receivables	38	473	38	-	473	-
Treasury asset	-	-	-	-	-	-

Fixed rate instruments

Fair value sensitivity analysis for fixed rate instruments

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

Variable rate instruments

Bank overdraft	18	-	18	-	-	-
Cash and short-term deposits	1,407	3,375	323	1,407	3,375	323
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	100	-	-	100	-
Loans and borrowings	119	296	4	119	296	4
Loans and other receivables	-	168	-	-	168	-
Treasury asset	-	-	-	-	-	-

Cash flow sensitivity analysis for variable rate instruments

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

Cash and cash equivalents

Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.	962	3,375	962	3,375	-	-
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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

GROUP			COMPANY		
2024	2023	2022	2024	2023	2022
Rm	Rm	Rm	Rm	Rm	Rm

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management

4.4 Currency risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	USD			EUR		
	2024	2023	2022	2024	2023	2022
4.4 Currency risk						
GROUP						
Assets	45	12	50	20	2	-
Trade receivables	45	12	50	20	2	-
Controlled foreign currency accounts (CFC)	-	-	-	-	-	-
Firm Commitment (export revenue)	-	-	-	-	-	-
Liabilities	(41)	-	26	(1)	(4)	-
Trade payables	(41)	-	26	(1)	(4)	-
Firm Commitment(import)	-	-	-	-	-	-
Gross balance sheet exposure	4	12	76	19	(2)	-
Forecast transactions (revenue)	-	-	-	-	-	-
Forecast transactions (purchases)	-	-	-	-	-	-
Gross balance sheet exposure	4	12	76	19	(2)	-
Forward exchange contracts	-	-	-	-	-	-
Export revenue	-	-	-	-	-	-
Import	-	-	-	-	-	-
Net exposure	4	12	76	19	(2)	-
COMPANY						
Assets	45	12	50	20	2	10
Trade receivables	45	12	50	20	2	10
Controlled foreign currency accounts (CFC)	-	-	-	-	-	-
Firm Commitment (export revenue)	-	-	-	-	-	-
Liabilities	(41)	-	26	(1)	(4)	-
Trade payables	(41)	-	26	(1)	(4)	-
Firm Commitment(import)	-	-	-	-	-	-
Gross balance sheet exposure	4	12	76	19	(2)	9
Forecast transactions (revenue)	-	-	-	-	-	-
Forecast transactions (purchases)	-	-	-	-	-	-
Gross balance sheet exposure	4	12	76	19	(2)	9
Forward exchange contracts	-	-	-	-	-	-
Export revenue	-	-	-	-	-	-
Import	-	-	-	-	-	-
Net exposure	4	12	76	19	(2)	9

Strengthening of the rand

A 5% strengthening of the Rand against the above currencies at 31 March would have increased/(decreased) profit and loss by the above mentioned amounts.

A 5% weakening of the Rand against the above currencies at 31 March would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
Rm	Rm	Rm	Rm	Rm

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

40.5 Fair value of financial assets and liabilities

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

GROUP

2024

Financial assets					
Cash and cash equivalents	1,429	-	-	1,429	1,429
Financial assets					
Loans and receivables	-	-	-	-	-
Other financial assets (refer note 19.1)	1	-	-	1	1
Trade and other receivables (refer note 17)	485	-	-	485	422
	1,914	-	-	1,914	1,852
Financial liabilities					
Associated companies: Loans					
Loans and borrowings	-	(308)	-	(308)	(308)
Other financial liabilities	-	(18)	-	(18)	(18)
Trade and other payables (refer note 26)	-	(1,138)	-	(1,138)	(1,087)
Preference dividends	-	-	-	-	-
	-	(1,464)	-	(1,464)	(1,413)
Net financial assets/(liabilities)	1,914	(1,464)	-	450	438

2023

Financial assets					
Cash and cash equivalents	3,355	-	-	3,355	3,355
Financial assets					
Loans and receivables	1,704	-	-	1,704	1,704
Other financial assets (refer note 19.2)	-	-	-	-	-
Trade and other receivables (refer note 17)	2	-	-	2	2
	5,061	-	-	5,061	5,061
Financial liabilities					
Associated companies: Loans					
Loans and borrowings	-	-	-	-	-
Other financial liabilities	-	(1,176)	-	(1,176)	-
Trade and other payables (refer note 26)	-	-	-	-	-
Preference dividends	-	-	-	-	-
	-	(1,176)	-	(1,176)	-
Net financial assets/(liabilities)	5,061	(1,176)	-	3,885	5,061

2022

Financial assets					
Cash and cash equivalents	135	-	-	135	132
Financial assets					
Loans and receivables	945	-	-	945	895
Other financial assets (refer note 19.1)	4,401	-	-	4,401	4,401
Trade and other receivables (refer note 17)	282	-	56	338	130
	5,762	-	56	5,819	5,558

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
Financial liabilities					
Associated companies: Loans	-	-	-	-	-
Loans and borrowings	(1,316)	1	-	(1,315)	-
Other financial liabilities	-	-	-	-	-
Trade and other payables (refer note 26)	-	-	-	-	-
Preference dividends	-	-	-	-	-
	(1,316)	1	-	(1,315)	-
Net financial assets/(liabilities)	4,446	1	56	4,503	5,558

COMPANY

2024

Financial assets					
Cash and cash equivalents	1,429	-	-	1,429	1,429
Financial assets					
Loans and receivables	-	-	-	-	-
Other financial assets (refer note 19.1)	1	-	-	1	1
Trade and other receivables (refer note 17)	485	-	-	485	422
	1,914	-	-	1,914	1,852
Financial liabilities					
Associated companies: Loans	-	-	-	-	-
Loans and borrowings	-	(308)	-	(308)	(308)
Other financial liabilities	-	(18)	-	(18)	(18)
Trade and other payables (refer note 26)	-	(1,138)	-	(1,138)	(1,087)
Preference dividends	-	-	-	-	-
	-	(1,464)	-	(1,464)	(1,413)
Net financial assets/(liabilities)	1,914	(1,464)	-	450	438

2023

Financial assets					
Cash and cash equivalents	3,355	-	-	3,355	3,355
Financial assets					
Loans and receivables (refer note 14)	1,704	-	-	1,704	1,704
Other financial assets (refer note 19.1)	-	-	-	-	-
Trade and other receivables (refer note 17)	2	-	-	2	2
	5,061	-	-	5,061	5,061
Financial liabilities					
Associated companies: Loans	-	-	-	-	-
Loans and borrowings	-	-	-	-	-
Other financial liabilities	-	(1,176)	-	(1,176)	(1,176)
Trade and other payables (refer note 26)	-	-	-	-	-
Preference dividends	-	-	-	-	-
	-	(1,176)	-	(1,176)	(1,176)
Net financial assets/(liabilities)	5,061	(1,176)	-	3,885	3,885

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
2022					
Financial assets					
Cash and cash equivalents	135	-	-	135	132
Financial assets					
Loans and receivables (refer note 14)	940	-	-	940	895
Other financial assets (refer note 19.1)	4,401	-	-	4,401	4,401
Trade and other receivables (refer note 17)	282	-	56	338	130
	5,758	-	56	5,814	5,558
Financial liabilities					
Associated companies: Loans	-			-	
Loans and borrowings	(1,316)			(1,316)	
Other financial liabilities	-			-	
Trade and other payables (refer note 26)				-	
Preference dividends				-	
	(1,316)	-	-	(1,316)	-
Net financial assets/(liabilities)	4,442	-	56	4,498	5,558

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Financial instrument	Valuation method	Significant inputs	Fair value hierarchy of inputs
Investment properties			Level 3
Derivative financial assets	Refer note 1.5.4	Refer note 1.5.4	Level 3
Financial assets Non-current assets held for sale cash and cash equivalents Trade and other receivables Financial liabilities Derivation Financial liabilities	Market comparison technique: The fair value of foreign currency contracts is marked- to-market by comparing the contracted forward rate to the present value of the current forward rate of an equivalent contract with the same maturity date.	Forward exchange contracted rates, market foreign exchange rates, forward contract rates, market commodity prices	Level 2
Loans and borrowings	Refer note 1.5.4	Refer note 1.5.4	Level 3
Trade and other payables	Refer note 1.5.4 **	Refer note 1.5.4 **	Level 2
Trade and other receivables	Refer note 1.5.4 *	Refer note 1.5.4 *	Level 2
Financial liabilities			
Derivation Financial liabilities	Refer derivative financial assets in this table	Refer derivative financial assets in this table	Level 2
Loans and borrowings	Refer note 1.4.4	Refer note 1.4.4	Level 2
Trade and other payables	Refer note 1.4.4 *	Refer note 1.4.4 *	Level 2

41. GOING CONCERN

The annual financial statements of Denel (SOC) Ltd for the year ended 31 March 2024 were prepared on a going concern basis. In terms of the International Accounting Standard 1, Presentation of Financial Statements (IAS 1) the directors are required to assess the entity's ability to continue as a going concern for the foreseeable future. Such assessment must consider all available information, which should be at least, but not limited, to twelve months from the balance sheet date. The Board assessed the Denel group's ability to continue as a going concern in the foreseeable future by looking at all areas that are risky in the business and that could be a threat to the business's ability to continue as a going concern in the foreseeable future. The financial performance of the group is a function of both internal and external factors that exist within the environment in which the business operates.

External factors that are material to Denel's going concern status:

- MLocal demand for defence equipment: Denel's primary mandate is to support the strategic capabilities of the South African National Defence Force as well as providing security solutions to some state security agencies. This has entrenched Denel's position in the local market. Defence spend around the world varies in line with regional and international considerations with government policy playing a critical role. Despite the decline in government spend reprioritisation of the budget with resultant decline in local demand, Denel has managed to diversify its revenue by driving exports diversify its revenues. Over the intervening period, Denel has been aggressively pursuing its target of 60% international revenue vs 40% local business and has ensured a sustainable pipeline.

- **Global demand for military equipment beyond Denel's traditional markets:** Denel has a strong high priority pipeline of worth of local and foreign orders and contracts. Denel achieved an order book in excess of R2.5bn by 30 September 2024. Management expect the order book for 2024/5 to be in excess of R4bn. This is evidence of increasing global demand for military equipment and technologies as well as Denel's position in the global defence supply chains in respect of its distinct offering of military technologies and battle proven platforms. The significant priority pipe-line bears testimony to Denel's success in building confidence and the reopening of doors for significant opportunities especially in our traditional markets.

- Market access to increase exports and maintain international footprint: Denel's market access and successful cooperative ventures in foreign markets has been the product of a supportive government policy mainly the DoD and DIRCO. Denel continues to invest in and nurture these relationships in order to navigate geopolitical considerations as evidenced by its order pipeline as well as well as maintaining its investment, particularly in North Africa, Sub-Saharan Africa and the Middle East.

- Strong relationship with and evolving policies of financial institutions:

Whilst Denel has received crucial funding allocation from the National Treasury (NT), the company relies on the local financial sector for banking services including obtaining guarantees for contracts. Despite constraints, Denel has maintained its relationships with its bankers and continue to build confidence with the financial sector. Denel is working with its banking partners, shareholder and NT respectively to develop plans to proactively de-risk the company from banking policies that are averse to the defence sector. The company has been able to enter into settlement agreements with banks for various long outstanding debts. These agreements with banks provide certainty and affords the board and management to manage the company's cashflows in a structured manner.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Internal factors that are material to Denel's going concern status:

1) Liquidity constrains

The directors have reviewed the budgets and cash flow forecasts for the next 12 months, as well as the current liquidity and solvency position of the group. The directors ascertained that there are certain months where cash flows generated by operations are negative, casting significant doubts about liquidity due to short-term constraints. Denel has implemented strategies to address these short-term cash challenges; renegotiating contractual terms with clients in order to maintain positive cash and ensuring the execution of contracts take priority.

Management is also focused on the strengthening of internal controls throughout the business and to contain costs in order to reduce losses. Supply Chain, Finance and operational management have been tasked with ensuring that programmes execution is managed with focus on the cash conversion cycle.

Denel has been given access to the balance of the recapitalisation funds as of 26 November 2024.

2) Continuous losses incurred by the company and group

Denel has reported operating losses for 2023/4, 2022/3, 2021/2. These losses are mainly due to stagnant revenue over the three years. Denel management are focusing on increasing revenue in 2024/5 and beyond as evidenced by the appointment of an experienced Group Executive: Commercial (effective 01 November 2024) and the number of opportunities that are being pursued. The multi-year contracts concluded in the first half of 2024/5 are over R2.5bn. Management estimate that the value of orders at the end of the 2024/5 financial year will exceed R4bn. The orders are a mixture of local (rand denominated) and international (US\$ denominated) across all divisions of Denel.

There is renewed focus on operational excellence coupled with sound financial management across the group. This is envisaged to drive operational excellence and revenue generation across all divisions.

3) Progress on turnaround plan

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

The organisation is focusing on growing the order book and strategic partnerships opportunities considering the stagnant local defence budget. This is envisaged to include broadening the Research and Development base across all Denel's product line and services by collaborating with local research agencies and academic institutions. This will enable Denel to stay ahead of global competition and remain relevant to the South African army, South African Police Services and other protection agencies of the state.

In 2024/25 Denel is forecasting to increase its revenue to R2.1bn, a growth of about 28% from the 2023/24 financial year. This expected revenue growth is backed up by secured and signed contracts that are already in place and some already in the execution stages. If this revenue is achieved, Denel is expected to break even. Revenue is expected to grow to R3.5bn by the end of the 2026/27 financial year and an operating profit margin of 10% will be achieved.

Cash generated from operations is expected to be positive by the end of 2025/2026. This will be achieved mainly due to timeous execution of orders and focusing on the cash cycle of programmes across all divisions.

The company is focusing on marketing and development to increase the pipeline. The Denel stand at the Africa Aerospace and Defence (AAD) Expo in September 2024 won the best stand award. This will be followed up by IDEX 2025. IDEX is the only international defence exhibition and conference in the Middle East and North Africa (MENA) region. It will enable Denel to demonstrate its capabilities and the latest technology across land, sea and air sectors of defence. It is a unique platform to establish and strengthen relationships with government departments, businesses and armed forces throughout the region.

As part of the turnaround strategy, Denel focused on bringing operations back into production as evidenced in the deliveries of the Armoured Vehicle 8x8 Programme turrets in South East Asia, G6 and Vehicle Spares Deliveries in the Middle East. Despite budget constraints it restarted and revamped the SAAF A-Darter Missile programme, concluded local and international client aerospace testing at the Overberg Test Range, ensured ongoing deliveries from the Integrated Systems team to the SA Army, and continued support of the SAAF's Fixed and Rotary Winged assets.

While Denel's head count has reduced dramatically over the last four years, the current headcount is aligned to the current orders on-hand and foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and testing, Denel has embarked on a hybrid model of using internal skills as available, retraining internal resources, contracting individuals in, and subcontracting. It is also recruiting for the medium- to long-term growth.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

In parallel, Denel ensured that it is back on the preferred supplier lists in the market so as to qualify to submit a formal response when the RFPs are sent out. Denel has demonstrated its capabilities and responded to technical and commercial Q&A to stay back on the potential supplier lists, developed localisation models to qualify to bid, and planned for mandated in-country demonstrations to qualify to bid. The brand has recovered tremendously over the last year where the high priority campaigns are in excess of R26bn. Over the last year Denel's sustainability has improved significantly and has secured more than R3.9bn worth of local and foreign orders and contracts in the Aerospace, Integrated Systems, Landwards and Guided Weapons domains to be executed in the current Corporate Plan period. The first major order (Middle East Client G6 Upgrades) worth more than R2bn has been contracted and execution has started. All of these planned efforts are aimed at increasing revenue and margins for sustainability, while the focus shifts to long-term business for growth.

In the short-term management is focusing on executing the following programmes:

- Landwards – Artillery gun, maintenance and spares supplies, PMP orders with SAPS and to meet local demand
- Aerospace – PSS contract, OTR testing
- Guided Weapons – Qatar and Algeria, SANSA opportunities
- ISS – ramp up

4) Non-performance of a major project

The Infantry Fighting Vehicle programme has been plagued by delays since the start of the programme. The main contributor to this delay has been the inability to execute the programme efficiently; as a result of scope creep that affected the freezing of the scope of the project. Furthermore, the phase ii contract was signed before reaching the milestones required for the production baseline; this led to a situation where phase i of the project was not executed on time. It is further noted that employees deployed to execute the programme were mismatched resulting in current programme/project managers not being outright project managers, but engineers adapted to project manage programmes in order to fill the gaps. Mitigating factors include: Considering Denel's lacklustre performance in executing some major programmes, the business has adopted a programme management framework which follows principles of project management and thus, define these principles to ensure governance and compliance in programme delivery. Furthermore, the company has embarked on a skills audit to enable implementation of fit for purpose work force. In addition, performance management and contracting has been implemented as it is central to ensuring efficiency and accountability in the business.

The Denel board and management have started the process of resetting the project. The activities undertaken in resetting the project include engagements with the client and end -user of the products.

5) Critical skills shortage and vacancies

Denel's performance is highly dependent on the availability of specialised and critical skills that are often scarce and in high demand. Denel's value chain extends to the industry which makes its involvement critical for delivery of programmes in Denel. This requires Denel to adopt a pragmatic approach of aligning critical skills to its core competencies whilst developing capacity in the industry for certain activities. This model has been optimised over a number of years with Denel positioned as the design authority and integrator for sovereign and strategic capabilities.

Denel's head count has reduced dramatically over the last 3 years due to a deliberate strategy to right-size the company, natural attrition and job insecurity due to low output prior and after the COVID-19 pandemic. Denel's current headcount of 1600 people is aligned to the current orders on-hand and the foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and test, the hybrid model including using internal skills as available, retraining internal resources, contracting individuals in, and subcontracting out is used and expanded on, where required. Furthermore, a plan to recruit for the medium-to long-term for sustainability and growth phases has been developed. The success of the hybrid model has been demonstrated at the entities that have been able to deliver to customers despite the loss of inhouse skills. Examples being the A-Darter Air-to-Air Missile programme, the G5 and G6 Upgrade programmes, as well as the Umkhonto Missile System upgrades and the Armoured Vehicle 8x8 programme for international clients.

To address the current vacancies that exist in the business, approximately 15% of such positions would require specialist recruitment (and or long-term training). The other 85% would either be available and able to fulfil the required function or can be upskilled through training. This training will be planned and phased so that the individuals are given the responsibility at the appropriate time so as to ensure that there are no adverse effects on operations (e.g. subcontracting of mentors). The intervention to address the skills gap is part of the board's culture shift strategy to turn Denel into a positive contributor to the South African citizenry.

Management recognises the challenges and threats that are caused by the current vacancies in the business and is on a recruitment drive to fill the critical vacancies both at Corporate Office and at operating divisions. The Company has recruited a permanent Group Chief Executive Officer (February 2024), Chief Audit Executive (May 2024), Group Executive: HR (August 2024), Group Chief Financial Officer (July 2024), and permanent Group Executives for divisions (September to November 2024) and Group Executive: Commercial (November 2024).

Denel also enjoys a stable labour relations environment and maintains good relationships with the two recognised Trade Unions (NUMSA and Solidarity). The stability of the relationships was demonstrated in August 2023 when the Denel Board, Management and Organised Labour (OL) agreed on a performance pact, which would see joint commitment to help the company meet its objectives. OL committed among others, to uninterrupted operations and working longer hours as may be required.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

6) Plant and infrastructure conditions

As equipment ages, it tends to fail more frequently, and requires more extensive maintenance and repair. As part of an overall maintenance strategy, Denel has identified ageing plant, equipment particularly in the PMP division. Denel has put in place, as part of its maintenance strategy, a regime to maintain such items in a state of good repair and efficient working order.

In the medium to long-term, Denel has budgeted for targeted capital replacement in the recapitalisation funds and from funds generated from operations. This will minimise the risk of business interruptions.

7) Advance payments and performance bank guarantees

The nature of the business in which Denel operates is such that advance payments bank guarantees and performance bonds are required before a contract can be concluded with a potential customer. A bank guarantee is an assurance that a bank provides for a contract between two external parties. The bank guarantee serves as a risk management tool for the customers for the prepayment to start the execution of a project. By issuing a guarantee the bank therefore assumes a liability for the execution and completion of the contract. Capacity and appetite for banks to issue guarantees to Denel has been constrained due to historical losses as well as poor finance and operational performance. Denel is in conversation with the National Treasury and private equity providers, respectively, to expand capacity for guarantees. Management have embarked on relationship management with local banks. These relationships are key in the execution of projects and in managing advance payments and related projects guarantees and performance bonds.

Management have implemented enhanced internal controls around advance payments with guarantees and deposits from customers. The implemented internal controls will contribute in building trust with stakeholders and will lead to more contracts and orders. These will also ensure the sustainability of the organisation.

Conclusion

Given the challenges and mitigations outlined above Denel prepared the 2023/2024 annual financial statements on a going concern basis, with the board expecting that the risks will be reduced by contracts that have been signed, turnaround plan implementation and the culture shift strategies that are being implemented in 2024/2025.

The board, accordingly, formed a judgement that it is appropriate to prepare the annual financial statements on a going concern basis. These financial statements, therefore, do not include any adjustments that would result if the going concern assumption was not used as the basis for the underlying preparation of the financial statements.

42. 'EVENTS AFTER THE REPORTING PERIOD AFTER THE REPORTING PERIOD

'EVENTS AFTER THE REPORTING PERIOD

Changes in Shareholder

On Monday, 26 August 2024, The President Mr MC Ramaphosa assigned the responsibility for Denel SOC Ltd to the Minister of Defence and Military Veterans. This was undertaken in terms of Section 97 of the Constitution of the Republic of South Africa of 1996. The full transfer of the administration, powers and functions of the Minister of Defence and Military Veterans over Denel SOC Ltd will be completed by 31 March 2025. The effect of this is that Denel SOC Ltd's shareholder is the Department of

Appointment of the CFO and Other Group Executives

The board appointed Mr Matodzi Lawrence Mukwevho as a Group Chief Financial Officer (GCFO) with effect from 01 July 2024. His appointment is critical in strengthening the executive management capacity of the company. Mr Mukwevho's appointment is important in restoring Denel's reputation and rebuilding the credibility of the company's leadership with stakeholders. In addition, this appointment will help build and strengthen a sound internal financial control environment which will enable Denel to restore its position as a strategic national asset and credible industry leader to customers, suppliers, employees, competitors, financial institutions and other key stakeholders. A Group Internal Audit Executive (May 2024), Group HR Executive (August 2024), Group Executives : Divisions (September to November 2024) and a Group Commercial Executive (November 2024) were also appointed after the 31 March 2024.

ICT Challenges

Denel experienced network challenges in and around 12 July 2024 due to unauthorised access to the company's ICT systems. As a result, Denel experienced data loss that impacted the compilation of the Annual Financial Statements. This unauthorised access is subject to ongoing investigation by the relevant government authorities.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

Recall of Guarantees by Armscor and settlement agreement with ABSA Ltd

Denel has advanced payment guarantees on Project Hoefyster with Armscor, ABSA, FNB and Guardrisk. These guarantees are for advance payments made by Armscor on phase 2 of the project. Armscor recalled the ABSA guarantee which was due to expire on 30 September 2024. The guarantee was for R469 339 247, with a cash collateral of R302 310 303. Denel has entered into a settlement and acknowledgement of debt agreement with ABSA bank for repayment of R167 028 944.23 in twenty-four equal monthly installments from 30 November 2024.

Settlement agreement with Nedbank Ltd

Denel has debt owing and payable to Nedbank Ltd under the Facility Letter, the Equity Advisory Agreement, the Property Advisory Agreement, the overdrawn balance on current account and Denel's utilisation of travel card facilities. Denel entered into a settlement agreement with Nedbank with effect from 13 December 2024. The agreement provides that Denel will repay Nedbank twelve consecutive.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

	GROUP			COMPANY		
	2024 ZAR	2023 ZAR	2022 ZAR	2024 ZAR	2023 ZAR	2022 ZAR
43. IRREGULAR EXPENDITURE						
Opening balance at 1 April	3,288	3,249	3,227	-	3,277	3,227
Add: Irregular expenditure incurred in prior year	-	-	-	-	-	-
Deviations from the procurement process not adequately approved	-	-	-	-	-	-
Tax clearance certificates not obtained	-	-	-	-	-	-
Add: Irregular expenditure incurred in the current year	-	39	43	-	20	50
Suppliers not registered on the central supplier database	-	20	22	-	20	22
Bids not adequately approved	-	-	-	-	-	-
Contract extension not adequately approved	-	-	2	-	-	2
Deviations from the procurement process not adequately approved	-	-	-	-	-	-
Evaluation criteria not adequately specified or applied	-	-	-	-	-	-
Inadequate deviation process followed	-	-	-	-	-	-
Insufficient quotes acquired	-	1	5	-	-	1
Limitation of Scope - Information not available	-	-	-	-	-	-
Local content and designated products not catered for	-	-	-	-	-	-
No Competitive bid process	-	6	1	-	-	5
Procurement done without following a prescribed / compliant Legislation	-	2	7	-	-	-
Procurement done without following a prescribed / compliant process	-	-	-	-	-	-
Quotations process not initiated from the National Treasury Central Supplier Database	-	-	-	-	-	-
R500k or R1 m open tender threshold not adhered to	-	-	-	-	-	-
SBD 4 – Declaration of interests needs to be confirmed for transactions above R1 m per financial year	-	-	-	-	-	-
Sole supplier approval not obtained from relevant authority	-	-	1	-	-	5
Tax Clearance Certificates on Foreign as well as local suppliers	-	10	5	-	-	15
Supplier with the highest points not selected	-	-	-	-	-	-
Contract Exceeding 15% threshold without approval	-	-	-	-	-	-
Contracts not signed	-	-	-	-	-	-
Suppliers in the service of the state	-	-	-	-	-	-
Appointment of Technical Advisors	0	-	-	-	-	-
Add: Irregular expenditure identified by the external auditors	-	-	-	-	-	-
Minimum of 3 quotations for RFQs above R30K not obtained	0.0	-	-	0	0	0
The Appointment of the Bid Evaluation Committee and Adjudication Committee	0.0	-	-	0	0	0
Contract extension not adequately approved	0.0	-	-	0	0	0
Identified by AG	0	-	-	0	0	0
Less: Amounts condoned	(204)	-	-	0	0	0
Less: Amounts recoverable (not condoned)	0	-	-	0	0	0
Less: Amounts not recoverable (not condoned)	0	-	-	0	0	0
Irregular expenditure as at 31 March	3,084	3,288	3,270	0	3,297	3,277

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2024

2024 ZAR m	GROUP			COMPANY		
	2023 ZAR m	2022 ZAR m	2024 ZAR m	2023 ZAR m	2022 ZAR m	

44. FRUITLESS AND WASTEFUL

EXPENDITURE

Opening balance Prior period error	3	-	88	3	128	88
As restated	3	-	10	3		10
Fruitless and wasteful expenditure - relating to prior year	-	-	1	-		1
Fruitless and wasteful expenditure - relating to current year	1	-	2	1		2
Less: Amount resolved	-	-	(1)	-		(1)
Less: Amounts transferred to receivables for recovery	-	-	-	-		-
Fruitless and wasteful expenditure awaiting resolution	6	-	128	6	128	128

Analysis of current year's fruitless and wasteful expenditure

Incident

Interest and penalties charged	-	-	5	-		5
Penalties on late deliveries and late payments	1	-	23	1		23
Regulatory and Statutory Compliance	-	-	2	-		2
Other*	-	-	(5)	-		(5)
Fruitless and wasteful expenditure awaiting resolution	1	-	25	1	-	25

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



The graphic features several concentric circles of varying radii, some solid and some dashed. Small dots are placed at various points along these circles, creating a sense of motion or data points. The circles and dots are rendered in white and a light green color against the background.

SECTION 5

INFORMATION
SERVICE

GLOSSARY

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

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

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

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

CORPORATE CONTACT DETAILS

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ANTI FRAUD AND CORRUPTION

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