DENEL

ANNUAL REPORT
2024/25

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 2024 to 31 March 2025. 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 60.

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
- Public Finance Management Act of 1999

REPORT CONTENT

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

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

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit Committee, has taken overall responsibility and accountability for this report. The Board believes that this report is a balanced and appropriate presentation of the profile and performance of Denel. The Board approved this report on page 45.

AMokgabudi

Interim Chairperson of the Board
Denel

Interim Chairperson of the Audit and Risk Committee

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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!

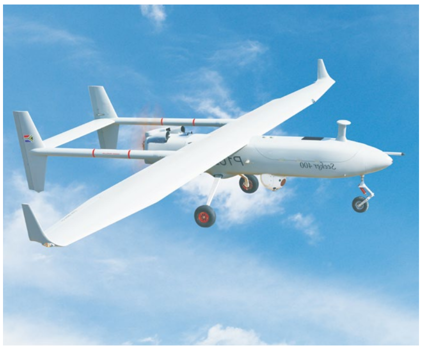
Our business divisions are as follows:

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

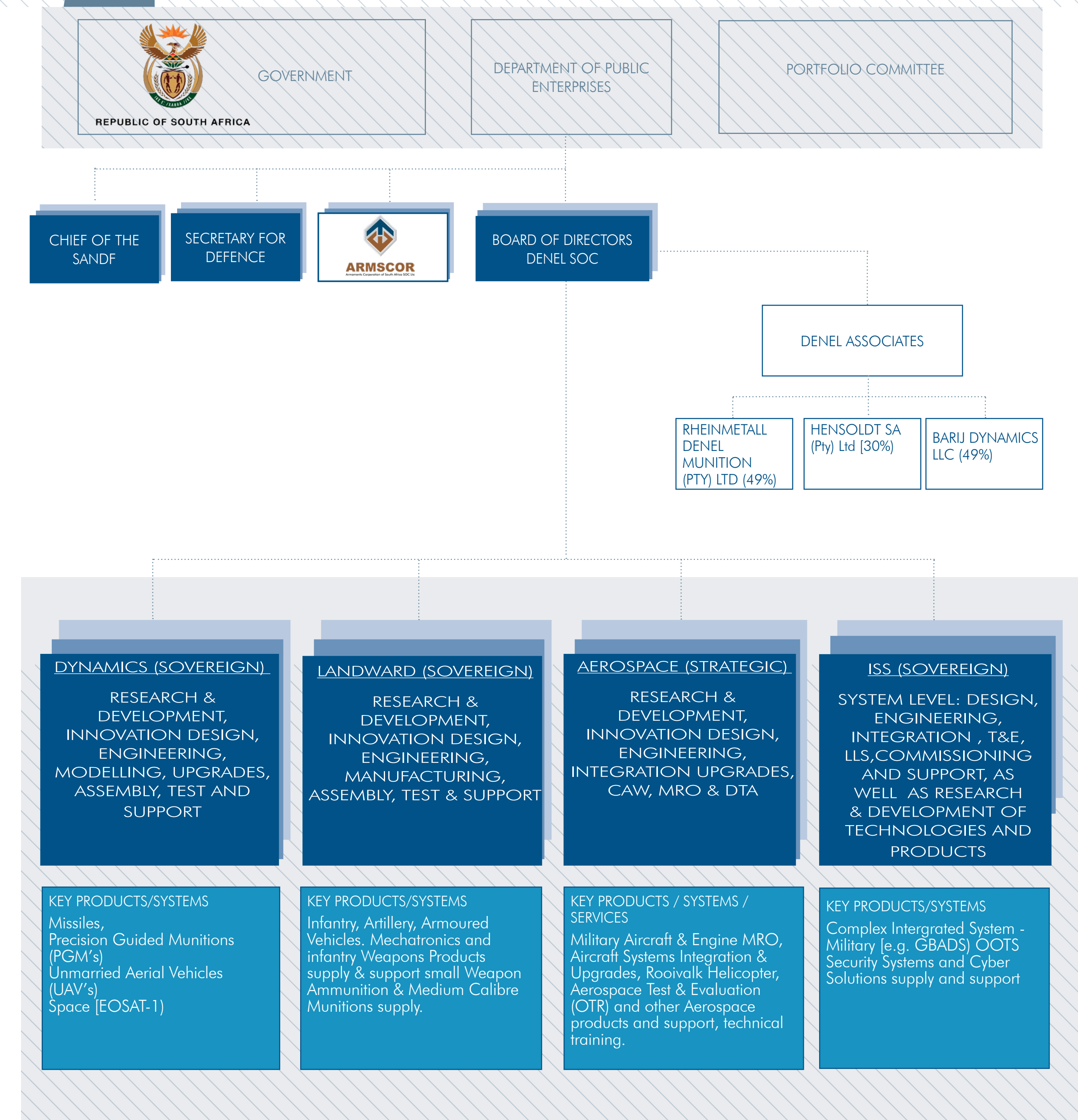
Denel Landward, incorporating Denel Land Systems (DLS) and Pretoria Metal Pressing (PMP) is a leading project-based, consolidated systems designer, and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. It is also a sub-system supplier for artillery, rapid-fire 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

Over the last five years, Denel has experienced a significant transformation, marked by a steadfast commitment from both the Board and management to execute a comprehensive turnaround strategy. These efforts are beginning to bear fruit, positively impacting the organisation's trajectory and stakeholder confidence.

The primary aim of these initiatives is to rebuild trust in an entity that has faced considerable reputational challenges. In doing so, Denel is increasingly being repositioned as a vital national asset and a dependable partner within South Africa's broader defence and security landscape. This renewed focus aligns with the government's broader policy of restructuring state-owned enterprises by transferring their functions to relevant line ministries, thereby enhancing operational efficiency and strategic focus.

Following this restructuring, Denel now reports directly to the Minister of Defence. It contributes its specialised expertise and proven track record to support the South African National Defence Force and other key defence stakeholders. Thanks to the dedication of all involved parties, the transition has been smooth, enabling Denel to pursue its national mission more effectively within a broader strategic framework.

I am confident that Denel's role as a pioneering partner for innovative defence technologies will further manifest within this new operational structure. We anticipate continued collaboration with the SANDF and Armscor, which will be instrumental in executing existing contracts and expanding into new markets with our advanced products and services.

At its core, Denel's mandate surpasses mere financial performance. Its fundamental purpose is to safeguard and strengthen South Africa's sovereign defence capabilities. Achieving this requires not only technical excellence but also unwavering integrity and strict alignment with national priorities. Despite the governance challenges faced over recent years, Denel remains a resilient organisation, poised to emerge stronger from its ongoing restructuring efforts.

PROGRESS WITH TURNAROUND

A pivotal achievement this year has been the appointment of highly qualified professionals into key leadership roles. The entire senior management team is now in place, with additional second-tier appointments imminent, signalling renewed stability and strategic direction. Moreover, the Board is working closely with executive management to stabilise operations, optimise our footprint, and modernise our portfolio to adapt to the rapidly evolving global defence environment.

We have already embarked on decisive steps to turn the company around, bolster our delivery capacity, and restore confidence among our industry partners, suppliers, and end-users. Denel remains committed to its national duty of providing innovative, reliable defence solutions that serve the interests of South Africa's security and sovereignty.

TRANSFORMATION AND RESTRUCTURING

The Board remains appreciative of the unwavering support from the shareholder, who regards Denel as a vital national asset. We look forward to continued collaboration with the Department of Defence and other security stakeholders, confident that our collective efforts will reinforce the strength, sovereignty, and security of South Africa.

Over the past few years, the company has undergone a substantial transformation, responding to operational constraints and financial pressures with resilience and strategic agility. These efforts have begun to restore confidence, improve operational efficiency, and reposition Denel as a trusted entity within the national security landscape. The Board advocates for further strengthening of internal controls, increasing accountability, and cultivating a high-performance culture across the organisation to sustain momentum.

Denel collaborates closely with the Department of Defence to deliver essential defence products and solutions that underpin South Africa's security and sovereignty. The company remains steadfast in its commitment to sustainable development, actively integrating economic, social, and environmental considerations into every aspect of its operations. These core principles are deeply embedded within the group's strategic framework and corporate values, guiding financial and strategic decision-making to ensure responsible growth and long-term viability.

The recent decision to bring Denel directly under the Department of Defence's oversight marks a pivotal step in enhancing operational efficiency. This restructuring initiative aims to streamline processes, foster greater alignment across the defence sector, and ultimately benefit the South African National Defence Force (SANDF) and the broader defence community. The transition process was successfully finalised by 31 March 2025, laying a stronger foundation for integrated defence capabilities.

STABILISED MANAGEMENT

The Board continues to perform its oversight function and has now introduced a culture shift strategy to address the overall internal control environment. We remain tax compliant, and the outstanding audited financial statements will be presented to the 2025 Annual General meeting.

The leadership within the management of Denel has stabilised following the appointment of a permanent Group Chief Executive Officer and highly experienced Group Chief Financial Officer. Most of the other top structure positions were subsequently filled with only a small number of vacancies left.

PRIMARY BUSINESS RISKS

The Board and executive management have worked closely together to identify the primary business risks facing the company and the strategies that must be employed to combat them.

- The insufficient cash and working capital inhibit Denel's ability to acquire new business, ramp up existing operations and settle the legacy debts.
- Ageing ICT infrastructure and outdated technologies increase the company's security vulnerabilities and have negative impacts on performance and the auditing process.
- Similar concerns exist regarding ageing infrastructure in the technical and engineering sectors where machinery and equipment are nearing the end of their lifecycles.
- Our ability to deliver on critical engineering projects is affected by our ability to retain the skills and experience of existing staff members and success in attracting the best and brightest talent among a new generation of skilled professionals.
- Weak internal controls adversely impact the integrity of financial and operational information, resulting in poor outcomes.

GOVERNANCE AND LEGAL

The company remains involved in continuing litigation and historical contractual disputes, the majority of them expected to be resolved in the coming financial year.

We continue to cooperate with the government agencies responsible for the implementation of the findings of the Zondo Commission. In recent weeks at least two former senior executives have appeared in court to face charges relating to state capture.

FUTURE PERSPECTIVE

The decision to restructure state-owned enterprises by placing Denel under the Department of Defence's line oversight is a welcome development. We believe this move will further accelerate the company's turnaround, expand its market presence domestically and internationally, and unlock new opportunities.

Beyond its commercial objectives, Denel's primary mandate is to safeguard and advance South Africa's sovereign defence capacity. This responsibility necessitates not only technical excellence but also unwavering integrity, operational security, and alignment with national priorities at all levels.

Looking ahead, our focus remains on sustainable growth, capability enhancement, and delivering consistent value to our clients, stakeholders, shareholders, and the nation. We are committed to expanding our market footprint both locally and globally, while simultaneously resizing and restructuring Denel to meet future defence needs and ensure robust internal controls.

STRONGER PUBLIC PROFILE

To support our initiatives to grow Denel's presence in the global defence arena and consolidate a larger market share we stepped up our public profile and increased the number of stakeholder engagements.

We attended the IDEX international defence exhibition in Abu Dhabi where we displayed some of Denel's best-known products in the fields of missile technology, unmanned aerial vehicles, and landward defence systems.

A highlight of the year was the visit of President Cyril Ramaphosa, and the Minister of Defence, to the Denel stand at AAD2024 – Africa's largest aerospace and defence exhibition. During the visit the President emphasised government's position that Denel is a strategic national asset.

APPRECIATION

The Minister of Defence and her team of senior officials remain dedicated to recognizing the valuable contribution Denel makes to South African society. I also wish to extend my gratitude to the Chief of the SANDF and the leadership at Armscor whose consistent support for a robust and resilient defence industry is greatly appreciated.

Throughout the year, we have had meaningful engagements with Auditor General South Africa and the team at the National Treasury. Their unwavering support and clear guidance have been instrumental in enabling Denel to take the necessary steps toward transformation.

We are deeply grateful to all employees across the organisation, whose loyalty, hard work, and innovation persist despite challenging financial conditions and uncertainties.

I am confident that Denel has reached a critical juncture, and that the execution of our turnaround plan will position us to continue fulfilling our role as a strategic asset for South Africa and its citizens.

AMokgabudi

Ms AM Mokgabudi
Interim Chairperson of the Board of Denel

OUR GLOBAL PRESENCE

- AFRICA
- ASIA PACIFIC
- EUROPE
- MIDDLE EAST
- NORTH AMERICA
- SOUTH AFRICA


BCS 931 M

SECTION 2

PERFORMANCE REVIEW

CEO'S REPORT

TSEPO MONAHENG

GROUP CHIEF EXECUTIVE
DENEL SOC

Our journey of transformation has not been without its challenges. However, through disciplined execution, comprehensive organisational restructuring, and an unwavering dedication to performance, we have begun to establish the foundation for sustainable growth and operational excellence. We are actively stabilising our core business areas, rebuilding credibility with our partners and clients, and repositioning Denel as a trusted provider of vital defence capabilities.

Given the current constraints of the domestic defence budget, our strategic priority for the coming year will be to secure over 60% of our revenue from export markets. To ensure sustainability, growth and readiness to support SANDF. Unlocking the full potential of our intellectual property and product portfolio is essential. Therefore, we aim to expand our presence in international markets through growth, we shall be able to investment in technologies and products. Joint venture partnerships and collaborative ventures. Our new home, the Department of Defence, facilitates stronger support for export opportunities and better support to the SANDF. strategic relationship with the Department of Defence will facilitate stronger support for export opportunities and allow us to capture a larger share of the local market, further strengthening our position.

At the heart of our mission is the imperative to protect and advance South Africa's sovereign defence capabilities. It is our primary responsibility to ensure that the country maintains autonomous control over critical technologies, systems, and platforms. This is a solemn trust – not just to our Shareholder but to every citizen who depends on a secure, capable, and resilient defence industry. Everyone in our organisation understands this shared obligation, and their professionalism, dedication, and technical expertise continue to uphold our national security interests.

With ongoing support from our Board and Shareholder, I am confident we are progressing on the right path, strengthening our national security posture while creating long-term value for all stakeholders.

CRITICAL SUCCESS FACTORS

Together, our Board and Management have outlined several strategic success factors vital to securing Denel's future sustainability:

- Building a healthy and sustainable order book by securing both South African National Defence Force (SANDF) and international contracts.
- Capitalising on large contracts that will mature

during this budget cycle by prioritising resource planning and precise programme execution to ensure timely delivery.

- Ensuring adequate working capital is available to support future growth, including comprehensive re-engineering of cash flow and working capital management.
- Restoring ethical leadership and a robust governance culture, which must permeate through our entire value chain.
- Strengthening strategic alignment with government and the defence sector through our renewed position with the Department of Defence.
- Continuing transformation efforts, particularly in employment equity, skills development, youth empowerment, preferential procurement, and enterprise development.
- Upgrading our ICT infrastructure and strengthening controls to deliver accurate, credible financial data and ensure operational security.
- Addressing internal control deficiencies to regain stakeholder confidence and support.

FINANCIALS

Liquidity remains a primary concern and Denel experiences challenges to secure new funding or guarantees from financial institutions. The remaining ring-fenced funds are however in the escrow account and can be accessed with the approval of the Board.

The lack of working capital constrained project execution in the year under review and will continue to do so until support is received from the Department of Defence.

Gross profit is lower than projected due to lower revenue. This is attributed to cancelled contracts for guided weapons, support contracts that were postponed to later dates, delayed contracts in Landwards, and plant breakdowns at PMP. Only Aerospace met its budgeted revenue.

The operating (loss) margin improved from a budget of (37%) to an actual of (26%), this is due to the efforts in place to reduce costs in the company.

The sustainability of the company in the coming year will be highly dependent on a number of key contracts including the successful execution of the international artillery upgrade project, the execution of two missile and securing the Artillery T5-52 55mm contract in the Middle East, and undisrupted operations at PMP to deliver on the SANDF, SAPS and international customers' contracts.

OPERATIONS

The current environment remains challenging, characterised by declining defence budgets in real terms that limit our contribution to SANDF's capacity to fully execute its security mandates both on national borders and in supporting peacekeeping operations across Africa. Within these constraints, Denel's reliance on stable orders is limited to key areas such as aircraft maintenance and repair, artillery systems, missiles and ammunition.

Nonetheless, our reputation remains strong internationally, especially in the supply of high-quality artillery systems, UAVs, and ammunition.

The shared services model which is at the core of the turnaround plan is now in place.

Landward completed the feasibility study for the new G6 power pack and presented it to a client. A new contract for 30 barrels is also being executed. A successful demo firing of a vehicle mounted Ingwe missile was conducted for a customer in Middle East.

Guided Weapons resumed the project execution of the 4th RPV with Armscor as well as the supply of maintenance spares on the Seeker 200 for a Middle Eastern country.

The Umkhonto support contracts with the SA Navy and the Finnish Navy are progressing as scheduled.

Negotiations continue with Armscor and the SAAF to recover money for the work done on the Oryx and Rooivalk during the period October 2023 to March 2024.

Denel continues to participate in SANSA's drive to establish an indigenous space launch capability, and the Overberg Test Range has been designated as the site to launch from. OTR also completed some outstanding tests for international clients and the University of KwaZulu-Natal.

The PMP project plan has been approved for implementation effective from 1 April 2025. This will speed up ammunition delivery to the SANDF and SAPS.

Hoefyster Phase 1 has resumed and Phase 2 shall be reviewed and contract varied.

OPPORTUNITIES IN THE PIPELINE

South Africa's non-aligned foreign policy stance, amidst global geopolitical tensions, enhances Denel's competitiveness in securing large-scale supply contracts in key markets. Continued investment in research and development (R&D) is vital to maintain our technological edge and meet evolving customer needs. Our approach involves two strategic pathways: diversifying products through partnerships and strengthening our offerings via R&D and development of new solutions.

It is crucial that Shareholder allocates baseload funding toward the upgrading of existing products and fostering pioneering innovation in emerging domains. Such investments will be pivotal in retaining our skilled talent and attracting the next generation of engineers and technicians.

The investments shall enable technologies readiness which will ensure quick response to SANDF with solutions as and when they are required.

Among the top priorities in the opportunity pipeline – with a combined value of R41bn – are the supply of Umkhonto-IR and Ground Base Launchers, the Ingwe STM, the Seeker 400 UAS, and the supply of T5 Artillery systems and support packages to selected clients. High level ministerial discussion already took place on these opportunities. The successful contracting of some of these opportunities shall assist with the recovery of our local defence industry.

A key priority for the coming financial year will be to increase business development activities to build a sustainable pipeline in new and existing markets in Africa, the Middle East and East Asia.

STRATEGIC PRIORITIES

Despite our strides forward, Denel has faced challenges reflected in our audit history, having received a disclaimer opinion from the Auditor General over the past six years. The Auditor General has emphasised the crucial need for a cultural shift towards improved internal controls. We are actively working to implement comprehensive remedial actions, including enhancing skills and capacity within our finance and ICT functions, replacing outdated infrastructure, and re-establishing a strong internal audit capability – all essential steps toward restoring accountability, transparency, and stakeholder confidence.

Furthermore, we have introduced a comprehensive fraud and corruption prevention strategy aligned with the Public Finance Management Act and in accordance with the principles of the UN Global Compact. To reinforce integrity, plans are underway to initiate lifestyle audits for senior management and executives in the upcoming year, thus embedding a culture of ethical conduct across our organisation.

Progress is also underway to consolidate and modernise our ICT systems into a unified, enterprise-wide platform. This centralised architecture, hosted at our Irene campus with backup at Kempton Park, will enhance reliability, reduce operating costs, and improve overall control and management.

STRATEGIC RISKS

All executive positions in senior management are now filled and we expect that this will bring greater stability to the company. Denel has been able to attract some of the top minds in specialised fields such as engineering, auditing, strategic management and business development to our ranks and I have no doubt that this team will successfully lead the company through the final phases of restructuring, and beyond.

An analysis of the current state of the business and experience gained in recent years have identified a number of strategic risks which might affect Denel's trajectory.

- Funding – Insufficient cash / working capital and access to guarantees are impacting new business, the ramping up of operations, the settling legacy debt and capital expenditure.
- ICT infrastructure – ageing technologies and security vulnerabilities have an impact on performance and the auditing process.
- In July 2024 unauthorised access to ICT systems affected the Kempton Park and Lyttelton campuses and rendered the information systems of the two campuses inaccessible. As a precaution the entire Denel network was shut down pending the verification and scanning of the network.
  The Shareholder, SANDF, Armscor, Hawks and the State Security Agency were informed. SSA and the Hawks contributed to the investigation. A Business Continuity and Disaster Recovery Plan will be included in the new Denel ICT architecture. This plan will protect the organisation from potential risks and ensure that critical operations can continue in the event of an unexpected interruption.

- Hoefyster contract liability – the continuous indecision by Armscor regarding the future of Hoefyster has been a cause of great uncertainty for Denel and many downstream defence and technology businesses in the rest of the country.
- Capability to deliver on key projects are threatened by the loss of critical engineering and programme management capabilities and the high-cost structure to retain and maintain core skills for programme design, development and execution.
- Weak internal control environment adversely impacts the integrity of financial and operational information, resulting in poor audit outcomes.

Taking into account the risks to the business the Board and management took far-reaching steps towards mitigation.

- We have entered into ongoing payment arrangements for legacy debts and related liquidity challenges.
- We are taking urgent steps to recover outstanding payments for work completed, especially on PSS (helicopters support) contracts.
- We are resetting our relationships with banks and financial institutions.
- We have added substantial capacity and skills to our internal audit function.
- We are executing the contracts that were paused.

FUTURE PERSPECTIVE

In recent years, Denel has navigated a turbulent operating environment characterised by global uncertainties, emerging security threats, and economic challenges. Despite these headwinds, the organisation has exhibited remarkable resilience, sustained focus, and a clear sense of purpose. Through decisive leadership and a firm commitment to transformation, Denel has made considerable progress towards improved performance. It has undertaken critical restructuring to optimise operations, bolster delivery capacity, and rebuild trust among industry partners, suppliers, and end-users within the defence sector.

These strategic initiatives have fortified Denel's positioning, ensuring its relevance and sustainability in a competitive global market. Its vital role in safeguarding South Africa's sovereign capabilities cannot be overstated. Denel functions as a cornerstone of national security, providing the country with control over advanced technologies, systems, and platforms necessary for operational readiness and strategic independence.

I wish to express my appreciation to the Board of Denel and the Shareholder. We are confident that we can continue to draw wisdom and strategic direction as we move forward with the recovery of Denel.

The repositioning of the company is a difficult process. I want to recognise and thank each and every staff member for the sacrifices they are making to keep Denel on the recovery trajectory.

Mr OT Monaheng
Group Chief Executive Denel SOC

DENEL'S KEY PERFORMANCE 2024/25

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
FINANCIAL INDICATORS	LIQUIDITY	Reduction of creditors backlog	(Beginning Creditors Balance + Creditors Purchases - Creditors Payments) / Beginning Creditors Balance)) x 100%	>80 %	-29%	>80 %		>80 %		>80 %		Data not available due to limited availability of the Qmuzik ERP system as a result of the cyberattack
		Cash generated from operations	Operating income + Depreciation + Finance cost and +/- movements of relevant non-cash items according to IAS7 guidelines.	> R1m		> R1m		> R1m		> R1m		
		Trade Receivables (TR)	(Accounts Receivable / Total Credit Sales) x 60 Days	60 days		60 days		60 days		60 days		
		Current Ratio (CR)	(Current Assets / Current Liabilities)	1.5	0,9	1.5		1.5		1.5		
		Debt Ratio (DR)	(Current Assets / Current Liabilities)	0.8	0,8	0.8		0.8		0.8		
	PROFITABILITY	Revenue growth	Current period revenue less previous period revenue divided by previous period revenue multiply by 100.	> 25%	105%	> 25%	50%	> 25%	22%	> 25%	-5%	Lower than prior revenue by 5%
		EBIT Margin	(EBIT / Total revenue) x 100	< -5%	-13%	< -5%	-21%	< -5%	-21%	< -5%	14%	Target met due to reversal of Hoefyster finance costs (non-cash items) and share of associates' profits

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
COMMERCIAL INDICATORS	STRATEGIC INITIATIVES	Reduced cost base	(Cost Base in Current Year - Original cost Base) / Original cost Base)) x 100	20%		20%		20%		20%	- 10%	Calculated annually
		Capex	Completion of both Capex plans (CP)	60%	0	60%	0	60%	0	60%	0	Capex completion is behind because of funding constrains.
	BUSINESS DEVELOP-MENT	Order cover	Targeted vs Actual	>70%	80%	>70%	84%	>70%	80%	>70%	100%	New orders (Oman, Algeria and Spares) made significant impact
		Contract concluded (CC)	Total Number of Orders Placed - Total Number of Orders Not Concluded	R2,5bn (min R2bn ceiling R3bn)	R2,28bn	R2,5bn (min R2bn ceiling R3bn)	R2,29bn	R2,5bn (min R2bn ceiling R3bn)	R2,4bn	R2,5bn (min R2bn ceiling R3bn)	R4,2bn	Signed Oman contract to the value of R1,8bn in Q4, ahead of target of R2.5bn (FY)
		New cus-tomers	(Number of new customers at End of Period - Number of new customers at Start of Period)	1	1	1	2	1	3	1	4	Signed Crecent in Q4
		Customer retention	(Number of lost customers at End of Period - Number of lost customers at Start of Period) X 100	100%	100%	100%	100%	100%	100%	100%	100%	Status quo remains
	OPERATIONAL EXCELLENCE	Achieving Contracted Milestones	(Value of Milestones Invoiced (Achieved) / Total Number of Milestones) x 100%	> 70%	64%	> 70%	64%	> 70%	65%	> 70%	61%	Contract milestones not achieved in Q4, GW four missiles not delivered as planned due to technical and working capital issues. Work delayed in ISS to the 3rd Quarter while focusing on finishing the Development contract

Target achieved
Target not achieved
No Data

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
TRANSFORMATION	B-BBEE AND PREFERENTIAL PROCUREMENT	Reduction of irregular expenditure	(Opening balance-Closing Balance)/Opening Balance	60%	0	60%	0	60%	0	60%	0	No reliance could be placed on the reported information. The current 100% audits and reactivation of the Group Loss Control Committee will assist to correct this moving forward
		Spend on BBBEE compliant companies	Total Spend on BBBEE Compliant Companies / Total Measured Procurement Spend) x 100	80%	61%	80% TMPS	73%	80% TMPS	78%	80% TMPS	66%	Performance is a result of continued use of same suppliers and use of deviations to use historic suppliers (no market expansions)
		Spend on 51% Black owned entities	Total Spend on 51% Black owned entities / Total Measured Procurement Spend) x 100	40%	42%	40% TMPS	45%	40% TMPS	83%	40% TMPS	82%	Target met
		Spend on 30% Black women owned entities	Total Spend on 30% Black women-owned entities / Total Measured Procurement Spend) x 100	12%	18%	12% TMPS	22%	12% TMPS	19%	12% TMPS	15%	Target met
		Spend on Black youth owned entities	Total Spend on Black youth owned entities / Total Measured Procurement Spend) x 100	2%	7%	2% TMPS	0	2% TMPS	55%	2% TMPS	57%	Target met
		Spend on People with Disabilities owned entities	Total Spend on People with Disabilities owned entities/ Total Measured Procurement Spend) x 100	2%	1%	2% TMPS	0	2% TMPS	-82	2% TMPS	-86%	Spend contracted YTD as a result of continued use of same suppliers and no market expansions

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
LEARNING AND GROWTH	OPERATIONAL EXCELLENCE	Training spend	(Total Training Expenditure /Total Operating Expenses) x 100%	1% of payroll	0	1% of payroll	0	1% of payroll	0	1% of payroll	0	There is no training budget availability in the current financial year
		Number of Apprenticeship trainees	Total number of Apprenticeship trainee - non- Denel funded trainees	15	0	15	0	15	157	15	157	There are no additional Learners for this year
		Number of Apprenticeship trainees in Sector specific, scarce and critical skills	(Targeted - Actual)	5	0	5	0	5	67	5	67	The critical skills highlighted are Aircraft Mechanic and Aircraft Avionics. Both are essential for maintaining the safety, functionality, and efficiency of modern aviation operations.
		Employee turnover	Employees who left / (Headcount beginning of year + Headcount end of month) / 2) x 100	< 10%	2%	< 10%	4%	< 10%	10%	< 10%	11,50%	192 employees exited in 2025FY, interns included
		Revenue per Employee	Total revenue / Number of employees	R1,3m	R 0,22	R1,3m	R 0,42	R1,3m	R0,61	R1,3m	R0,8	Target not met
		Conduct performance reviews twice a year	Align DCO to Group	0	0	0	0	1	1	1	0	Last one scheduled/ planned for Q4.
		BBBEE level status	Certificate level	Level 5	0	Level 5	0	Level 5	0	Level 5	0	Not measured/verified due to financial and operational constraints

Target achieved
Target not achieved
No Data

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
INTERNAL PROCESSES	GOVERNANCE	Policy Review Update Rate	(Number of Policies Reviewed and Updated / Targeted Number of Policies for Review and Update) x 100	50%		70%	61%	85%	61%	100%	88%	All outstanding policies submitted, to be finalised by end of April 2025.
		Number of Vetting and integrity assessments conducted	(% of total number of applications for designated new employees subject to Armscor risk assessment / Total number of new employees)	100%	67%	100%	67%	100%	90%	100%	94%	There are employees that have not submitted the vetting forms to security for vetting
		Number of Personnel fitness for office (integrity)	Number of Personnel fitness for office / Total Number of personnel ?? x 100	>60%	67%	>60%	33%	>60%		>60%	14%	Majority of employees employed in FY 24/25 Qualification and reference checking still outstanding
		Number of valid registration / Licencing	(Number of valid registration or Licencing / Total Number of valid registration or Licencing) x 100	100%	63%	100%	63%	100%	75%	100%	100%	Marketing License-Awaiting name changes at affected divisions Fire Arms Dealership awaiting SAPS to issue Competency Certificate-Applicable for DLS-Currently DLS has no contracts
		Climate change response plan	No Report- 0%; Draft format 20%, Review- 50%; Exco- 70%; Board sub com- 80%; GEC / Board Approved- 100%	1		1	50%	1	50%	1	100%	Completed
		Approved report (Golden share provision)	GEC approved	1	100%	1	100%	1	100%	1	100%	Submitted
		Approved report for litigations	GEC approved	1	100%	1	100%	1	100%	1	100%	Submitted

BALANCED SCORECARD (BSC)	KPA	KPI	METHOD OF CALCULATION	TARGET: Q1	2024 JUN	TARGET: Q2	2024 SEP	TARGET: Q3	2024 DEC	TARGET: Q4	2025 MAR	COMMENTS
	CORPORATE SOCIAL INVESTMENT	Total CSI expenditure	(Value of Actual CSI Initiatives / Total value of Targeted CSI Initiatives) X 100	1% of Net Income		1% of Net Income		1% of Net Income		1% of Net Income		Funding constraints
INTERNAL PROCESSES	AUDIT	Closure of External Audit findings (CA)	(Number of Audit findings in Previous Period - Number of Audit findings in Current Period) / Number of Audits in Previous Period) x 100	70%	N/A		N/A	70%	N/A	70%	N/A	No record of previous AGSA findings
		Audit Opinion Rate	Qualified audit opinion(QAO) /unqualified audit opinion (UAO)	QAO	N/A	UQO	N/A	QAO		QAO		2024/2025 Report not received yet
		Number of whistle blower reports Assessed	(Total number of reports assessed within 21 days of whistle blower incident being reported / Total Number of whistle blower Reports) x 100	100%	0	100%	0	100%	100%	100%	100%	Assessment Reports for all whistle blower incidents that were received through the Denel Hotline. Nothing yet, service provider for the Hotline only appointed recently (started in September 2024)
		Number of completed investigations	(Total number of Investigations completed within 60 days of initiation / Total Number of Investigations) x 100	>70%	100%	>70%	100%	>70%	0	>70%	0	There are two reports that have been finalised in the current financial year (the Leaks and the DRC matter) and it seems that both were completed within 60 days of initiation.
		Number of implemented recommendations in the report	(Total number of recommendations implemented within 90 days / Total Number of Investigation Reports) x 100	100%	100%	100%	100%	100%	0	100%	0	not achieved (two of the investigation reports finalised in FY2024/25 have not yet been fully implemented)

Target achieved
Target not achieved
No Data

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:

MS AUDREY MATSHIDISO SHALANG SELOMAGAE MOKGABUDI (70)

Appointed as Acting Board Chairperson 1 July 2025

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:

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

DIRECTORSHIPS:

Truworths International, Adcorp Holdings, Lanseria Airport, Vukile Property Fund, Hensoldt SA and Alcutech Engineering (Pty)

VALUE ADD TO THE BOARD:

Financial, accounting specialist, infrastructure Advisory, Corporate Governance Specialist, Property Asset Management, Business Leadership and Business Turnaround

MRS GLORIA TOMATOE SEROBE (65)

Appointed as Denel Acting Chairperson on 25 February 2021 until 14 June 2025

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

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

DENEL BOARD OF DIRECTORS

LIEUTENANT GENERAL (RETIRED) TEMBA TEMPLETON MATANZIMA (72)

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

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 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 (61)

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 MATODZI MUKWEVHO (58)

GROUP CHIEF FINANCIAL OFFICER

Chartered Accountant (SA), B. Comm (Hons) B.Th. (Hons, with distinction); MBA (Wits Business School)

DIRECTORSHIPS:
Executive Director: Denel

VALUE ADD TO THE BOARD:
Group internal controls, Audit, Finance & Accounting, Tax, IT and Supply Chain, Financial Management, Strategic Planning, Corporate Governance & Risk Management, Systems & Business Process Development and Re-Engineering, Governance, Risk and Compliance Risk Management

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL

MR OTHNIEL TSEPO MONAHENG (61)

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 MATODZI MUKWEVHO (58)

GROUP CHIEF FINANCIAL OFFICER

Chartered Accountant (SA), B. Comm (Hons) B.Th. (Hons, with distinction); MBA (Wits Business School)

DIRECTORSHIPS:
Executive Director: Denel

VALUE ADD TO THE BOARD:
Group internal controls, Audit, Finance & Accounting, Tax, IT and Supply Chain, Financial Management, Strategic Planning, Corporate Governance & Risk Management, Systems & Business Process Development and Re-Engineering, Governance, Risk and Compliance Risk Management

DR BOLEDI SEOPELA (49)

GROUP EXECUTIVE: HUMAN RESOURCES &TRANSFORMATION

Doctor of Business Leadership (UNISA), Master's Business Leadership (University of Pretoria), Post Graduate Diploma in HR Management (University of Johannesburg), Bachelor of Arts Social Sciences (University of the North)

DIRECTORSHIPS:
None

VALUE ADD TO THE BOARD:
Strategy and Policy development, Business management, human resources management and executive leadership experience

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL

MR MXOLISI PHALISO
(40)

CHIEF AUDIT EXECUTIVE

CA (SA), Postgraduate Diploma in Accounting (UCT), LLB (cum laude) (UNISA)

DIRECTORSHIPS:
None

VALUE ADD TO THE BOARD:
Public and private sector auditing, legal and compliance, business management

MR KHALATSE MAROBELA
(62)

GROUP LEGAL, RISK AND GOVERNANCE

B Proc, LLB and Admitted Attorney

DIRECTORSHIPS:
None

VALUE ADD TO THE BOARD:
Corporate Legal Advisory services, Executive Management Experience, Civil Aviation Management Experience, Corporate Secretariat Services and Governance and Legal and Regulatory Compliance

MS MARYNA GIE
(53)

GROUP COMPANY SECRETARY

LLB, CIS

DIRECTORSHIPS:
None

VALUE ADD TO THE BOARD:
Company Secretarial, Stakeholder Management

MR JUSTICE TOOTLA
(56)

GROUP EXECUTIVE COMMERCIAL

Bachelor of Commerce (Wits), Masters in Business Leadership (SBL Unisa), Programme for Management Development (Gordon Institute of Business Science), Senior Management Development (Thales University)

DIRECTORSHIPS:
Soleil Consulting (Pty) Ltd.

VALUE ADD TO THE BOARD:
Company Management, P&L Management (Financial), Project Management, Team Leadership, Team Management, PFMA, Strategy Formulation, Stakeholder Management, Business Development, Sales Pipeline Management, Bid Process Management, Risk Management (New Contracts Negotiation), Change Management

DENEL BUSINESS DIVISIONS' CHIEF EXECUTIVE OFFICERS

MR KHOHLONG WILLIAM HLAKOANE (52)

GROUP EXECUTIVE LANDWARD

BSc; BSc Eng.; MBA

DIRECTORSHIPS:
50K Investments (Pty) Ltd

VALUE ADD TO THE BOARD:
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

DR DAWIE ROOS (54)

GROUP EXECUTIVE INTEGRATED SYSTEMS SOLUTIONS

B. Eng. (Electrical and Electronic); M. Eng. (Power Electronics); D.Eng. (Engineering Management), Program Management Professional (PgMP); Professional Engineer (PrEng)

DIRECTORSHIPS:
Aquila Extreme Adventure (Pty) Ltd, Denel Vehicle Systems (Pty) Ltd.

VALUE ADD TO THE BOARD:
Project and Program Management, Team Leadership, System Engineering, Engineering Design and Development, Complex system integration, Strategy management, Stakeholder Management, Business Development, Radical Innovation, Research methodology, Financial management, Acquisition management, Integrated Logistics management, Ethical hacking, Academic research and Industry collaboration

MR CHRIS BOSHOF (44)

GROUP EXECUTIVE AEROSPACE

Higher Diploma in Investment Analysis & Portfolio Management (UNISA; MBA (WITS); B Comm in International Trade and Marketing Management (North-West University)

DIRECTORSHIPS:
None

VALUE ADD TO THE BOARD:
Director – Business Development and Operations; General Manager / Director; New Business Development and Sales; Chief Executive Officer & Strategic Leadership; Vice President

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 (PR&T)
- Social and Ethics Committee

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

- Business Development Forum
- Governance and Internal Control Review Committee
- Commercial Review Committee

<table>
<tr><th colspan="3">SHAREHOLDER</th></tr>
<tr><th colspan="2">DENEL BOARD</th><th>COMPANY SECRETARY</th></tr>
<tr><td>Audit and Risk Committee</td><td>Social and Ethics Committee</td><td>Personnel, Remuneration and Transformation Committee</td></tr>
</table>

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.

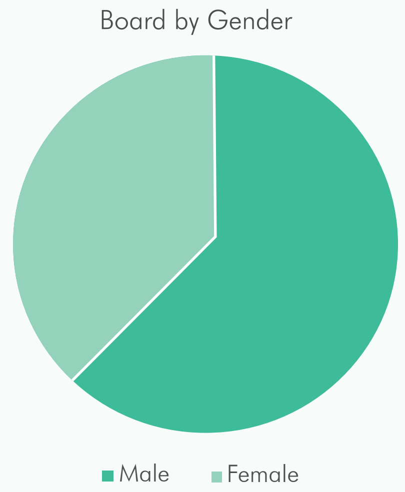
The Board plays a critical role in strategy planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie Denel's values, culture and processes. The Board endeavours to manage the Company, together with management, in an efficient, accountable, 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.

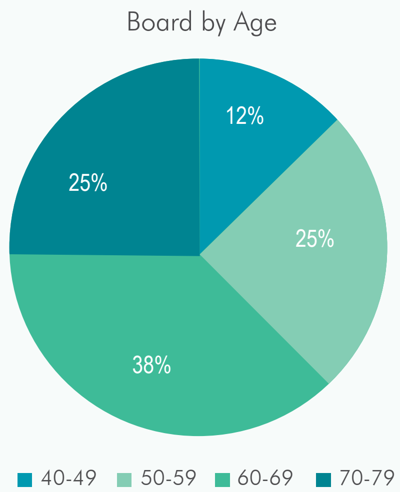
RESPONSIBILITY AND ACCOUNTABILITY

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.

The following directors were appointed during the year:

Mr Matodzi Mukwevho (GCFO) – 1 July 2024

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 requirements of being a responsible corporate citizen.

The Board's attendance is presented as follows:

		Q1 (1 April – 30 June 2024)			Q2 (1 July - 30 Sept. 2024)			Q3 (1 Oct. – 31 Dec. 2024)			Q4 (Jan. – Mar. 2025)	
BOARD MEMBER	Total	Special 4 April 2024	26 April 2024	31 May 2024	26 July 2024	Special 30 Aug.2024	Special 25 Sep. 2024	Special 1 Oct. 2024	20 Nov. 2024	Special 11 Dec. 2024	31 Jan. 2025	26 Feb. 2025
Mrs GT Serobe (Inter-im Chairperson)	11/11	√	√	√	√	√	√	√	√	√	√	√
Mr TH Magazi	11/11	√	√	√	√	√	√	√	√	√	√	√
Lt. Gen. TT Matan-zima	10/11	√	√	√	√	√	√	A	√	√	√	√
Mr MM Mnisi	10/11	√	√	√	√	A	√	√	√	√	√	√
Ms AMSS Mokgabudi	10/11	√	√	√	√	√	√	√	√	A	√	√
Ms MMT Ramano	6/11	√	√	A	√	A	A	√	√	√	A	A
Mr OT Monaheng	11/11	√	√	√	√	√	√	√	√	√	√	√
Ms T Sabela	1/1	√	-	-	-	-	-	-	-	-	-	-
Mr ML Mukwevho	8/8	-	-	-	√	√	√	√	√	√	√	√

A= Apology

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 2024 to 31 March 2025 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.

	Q1 (1 April – 30 June 2024)	Q2 (1 July – 30 Sept. 2024)	Q3 (1 Oct. – 31 Dec. 2024)	Q4 (1 Jan. – 31 Mar. 2025)
NON-EXECUTIVE DIRECTORS	R'	R'	R'	
Mrs GT Serobe	240 540.00	240 540.00	240 540,00	240 540,00
Mr TH Magazi				
Board	58 535.25	41 541,80	33 795,00	50 352.00
Audit & Risk	68 375.00	27 156.20	31 883,00	42 674.00
PR&T	106 561.60	24 547,50	30 628,00	30 628.00
Social and Ethics	-	20 010,00	20 010,00	20 010.00
RDM	25 176.00	-	25 176,00	-
Ad Hoc	10 547.30	-	26 184,00	-
Lt Gen. (rtd) TT Matanzima				
Board	58 535.25	41 541,80	33 177,00	50 352.00
PR&T	70 636.84	16 366,10	20 010,00	20 010.00
Social and Ethics	-	30 628,00	30 628,00	30 628.00
Audit & Risk (combined with Board)	4 364.00	-	21 337,00	-
Adhoc	-	-	2 182,00	-
Mr MM Mnisi				
Board	58 535.25	38 268,80	35 977,00	50 352.00
Audit & Risk	68 375.00	27 156.20	27 519,00	42 674.00
PR&T	65 908.74	16 366.10	20 010,00	20 010.00
Barij	25 176,00	-	50 352,00	-
Adhoc	-	-	17 456,00	-
Ms AMSS Mokgabudi				
Board	58 535.25	37 177,80	29 431,00	50 352.00
Audit & Risk	141 309.00	53 649,00	60 740,00	89 842.00
Social & Ethics	-	-	-	-
Hensoldt	-	25 176.00	25 176,00	25 176.00
Ad Hoc	19 638.00	-	-	-
PR&T (combined with Board)	6 910.10	-	-	-
Ms MMT Ramano				
Board	33 359.25	38 268,80	34 522,00	-
Audit & Risk	64 011.00	21 337.00	1 818,00	21 337.00
PR&T (combined with Board)	42 989.34	-	-	-
Ad hoc	4 000.70	-	2 182,00	-
Sub total	**1 232 018.87**	**699 731.10**	**820 733,00**	**784 937.00**
EXECUTIVE DIRECTORS				
Ms T Sabela	491 228,47			
Mr OT Monaheng	984 647.84	984 406.26	984 406,26	984 677.48
Mr ML Mukwevho	-	807 858,42	807 656,34	807 866.30
Sub total	**1 475 876,31**	**1 792 264,68**	**1 792 062,60**	**1 792 543.78**
Total	**2 707 895,18**	**2 491 995.78**	**2 612 795,60**	**2 577 480.78**

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.

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.

		Q1 (1 April – 30 June 2024)			Q2 (1 July - 30 Sept 2024)			Q3 (1 Oct – 31 Dec. 2024)		Q4 (Jan. – Mar. 2025)	
COMMITTEE MEMBER	Total	15 April 2024	24 April 2024	24 May 2024	24 July 2024	Special 7 Aug. 2024	Special 4 Sep. 2024	23 Oct. 2024	Special 9 Dec. 2024	28 Jan. 2025	19 Feb. 2025
Ms AMSS Mokgabudi (Chairperson)	10/10	√	√	√	√	√	√	√	√	√	√
Mr TH Magazi	10/10	√	√	√	√	√	√	√	√	√	√
Mr MM Mnisi	9/10	√	√	√	√	√	√	√	A	√	√
Ms MMT Ramano	6/10	√	√	√	√	A	√	A	A	√	A
STANDING INVITEES											
Mr OT Monaheng	9/10	√	T	√	√	√	√	√	√	√	√
Ms T Sabela[1]	1/1	√	-	-	-	-	-	-	-	-	-
Mr ML Mukwevho	6/7	-	-	-	√	√	√	√	A	√	√

A = Apology

SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee is charged with the responsibility to assist the Board with its oversight responsibilities in respect of Denel's corporate citizenship commitments. During the year the Committee receives and considers reports pertaining the key aspects of sustainable development including Occupational Health and Safety, Environmental Management, Fraud and Corruption Prevention Policy, Ethics Policy, Corporate Social Investment and Transformation among others. The Committee also considers matters related to the above that are included in the Integrated/Annual Report.

The Committee is a statutory committee as required by Section 72(4) of the Companies Act, Act 71 of 2008 and consists out of three independent Non-Executive Directors, which are confirmed at the Annual General Meeting. The executive directors are standing invitees to the committee meetings and the relevant executive members may attend the committee meetings by invitation.

Further to the above, 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.

An annual work plan ensure that it meets all monitoring and reporting responsibilities within the annual cycle.

Over and above usual key focus areas, such as stakeholder engagements, UN principles and OECD recommendations, SHEQ related matters, whistleblowing, compliance and considering relevant policies, the Social and Ethics Committee has increased focus on Environmental Social and Governance (ESG) matters, such as Climate Change and Sustainability performance, transformation and ethics.

To this end, the Climate Change Plan has been finalised, which includes targets to achieve the reduction of Denel's carbon footprint. Adherence thereto will be monitored by the Committee. Projects are being identified to achieve the objective of the Climate Change Plan, subject to availability of funds.

		Q1 (1 April – June 2024)	Q2 (July - Sept. 2024)	Q3 (Oct. – Dec. 2024)	Q4 (Jan. – Mar. 2025)
COMMITTEE MEMBER	Total	No meeting held	17 July 2024	22 October 2024	31 March 2025
Lt. Gen. TT Matanzima (Chairperson)	3/3	-	√	√	√
Mr TH Magazi	3/3	-	√	√	√
Ms AMSS Mokgabudi	0/3	-	A	A	A
STANDING INVITEES					
Mr OT Monaheng	3/3	-	√	√	√
Ms T Sabela	0/0	-	-	-	-
Mr ML Mukwevho	2/3	-	√	√	A

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 is 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.

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.

		Q1 (1 April – 30 June 2024)								Q2 (1 July 2024 – 30 Sept. 2024)		Q3 (Oct. 2024 – 31 Dec. 2024)	Q4 (Jan. 2025 – Mar, 2025)
COMMITTEE MEMBER	Total	9 April 2024	Special 17 April 2024	Special 6 May 2024	Special 15 May 2024	Special 22 May 2024	Special 3 June 2024	Special 4 June 2024	24 June 2024	Special 9 July 2024	Special 11 July 2024	Special 16 Oct. 2024	No Meetings held
Mr TH Magazi (Chairperson)	11/11	√	√	√	√	√	√	√	√	√	√	√	-
Lt. Gen. TT Matanzima	11/11	√	√	√	√	√	√	√	√	√	√	√	-
Mr MM Mnisi	10/11	√	√	√	√	√	√	A	√	√	√	√	-
STANDING INVITEES													
Mr OT Monaheng	11/11	√	√	√	√	√	√	√	√	√	√	√	-
Ms T Sabela	1/1	√	-	-	-	-	-	-	-	-	-	-	-
Mr ML Mukwevho	2/2	-	-	-	-	-	-	-	-	-	√	√	-
Ms MMT Ramano (assisting with executive interviews)	5/5	-	√	√	√	√	-	√	-	-	-	-	-

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 2025.

The consolidated annual financial statements of Denel SOC Ltd for the year ended 31 March 2025, as set out on pages 78 to 182, 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:

Interim Chairperson of the Board

Group Chief Executive Officer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SECTION

4

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

Preparer

Matodzi Mukwevho CA(SA)

Published 19 November 2025

GENERAL INFORMATION

Country of incorporation and domicile	Republic of South Africa
Nature of business and principal activities	Denel is a state-owned commercially driven company and strategic partner for innovative defence,security, aerospace and related technology solutions. Denel provides turnkey solutions of defence equipment to its clients by designing, developing, integrating and supporting artillery, munitions, missiles, aerostructures, aircraft maintenance, unmanned aerial vehicles systems and optical payloads based on high-end technology.
Directors	Monaheng Othniel Tsepo Matodzi Mukwevho Magazi Thamsanqa Harold Matanzima Temba Templeton Mnisi Mandla Martin Mokgabudi Audrey Matshidiso Shalang Selomagae Ramano Mmakeaya Magoro Tryphosa
Registered office	Denel Corporate Office Nellmapius Drive Irene Centurion 0046
Business address	Denel Corporate Office Nellmapius Drive Irene Centurion 0046
Postal address	PO Box 8322 Centurion Gauteng 0046
Shareholder	Department of Public Enterprise of the Republic of South Africa
Auditors	AGSA Chartered Accountants (S.A.) Registered Auditors
Company secretary	Maryna Gie
Company registration number	1992/001337/30

DIRECTORS' RESPONSIBILITIES AND APPROVAL

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

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

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

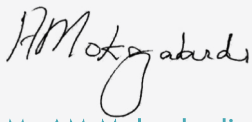
The Directors are concerned by the current system of internal control in preparation of the financial statements for 2025. Whilst there has been severe gaps in the internal control environment there has not been a complete breakdown The directors have interrogated management's plans and are closely monitoring the progress in improving the internal control environment. Further detail on the director's report on internal controls deficiencies.

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

The external auditors are responsible for independently auditing and reporting on the group's annual financial statements. The annual financial statements have been examined by the group's external auditors and their report is presented on page 60.

The annual financial statements set out on pages 78 to 182, which have been prepared on the going concern basis, were approved by the board of directors on 30 May 2025 and were signed on their behalf by:

Approval of financial statements



Ms AM Mokgabudi
Interim Chairperson of the Board

Mr OT Monaheng
Group Chief Executive Officer

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 2025.

1. Directorate

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

Directors	Office	Designation
Monaheng Othniel Tsepo	GCEO	Executive Director
Matodzi Lawrence Mukwevho	GCFO	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 2025.

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

The event after reporting period have been reported in note 42 of the Annual Financial statements on page 180.

5. Internal control

During the FY2024 financial year-end audit, the Auditor General raised material irregularities related to the lack of credible financial statements and ICT failures that led to data loss. The Board acknowledges these internal control failures and their severity in compliance with legislation, Denel's ability to operate effectively and a responsible corporate citizen. In preparing the FY2025, Denel had not fully addressed the factors that led to the material irregularities and as such the deficiencies that were in existence in FY2024 financial year persisted in the FY2025 financial year. The key factors that have contributed to internal control deficiencies are detailed below, the mitigation implemented and the status of further remedial plans.

INTERNAL CONTROL DEFICIENCIES	REMEDIAL ACTION TAKEN / MITIGATION PLAN
Inadequate skills and capacity within finance and ICT functions at both group and divisional levels.	• Organisation structure that supports the turnaround strategy was approved. • The recruitment of the executive structure has been completed and the Divisional Finance executives started on the 2nd of May 2025 in all the divisions. All the three Finance Executives are CA(SA) at a minimum and have a mixture of private sector and SOE/C experience. • This will improve the skill set as there is now a higher number of Chartered Accountants in the organisation to ensure that competent finance leadership is in place. This will enable the Board to drive improvements in the control environment. The next step is the recruitment to capacitate the entire finance team to be completed by October 2025. • Critical vacancies are being addressed across Denel operations and in support functions to ensure that trajectory of causing harm is turned around to doing good to society. • Performance management has been implemented and is accompanied by consequence management where staff have broken the law and Denel regulations.
Outdated IT infrastructure, limiting effective implementation of IT controls.	• The Group Manager ICT has been appointed and has joined Denel on 2 May 2025. • With the appointment of the above the key focus will be the establishment of the ICT governance structure with the re-establishment of the ICT Steering committee and the procurement of new/upgraded IT infrastructure by 31 May 2025 and 30 October 2025 respectively. • The Group Manager ICT, will formulate and submit for approval the IT strategy, IT architecture and the IT modernisation plan for implementation. The timelines in respect of the above will be finalised in consultation with the Group Manager ICT and the Group EXCO. Recapitalisation funds will be applied towards addressing the ICT deficiencies.
Weak internal control systems and failure to adhere to financial policies and procedures.	• The Board is overseeing the implementation of a detailed internal control remediation plan. Progress on this is currently being monitored, on a bi-monthly basis, by the Audit and Risk Committee of the Board. Reporting on progress will be included in the quarterly report to the Board, shareholder and National Treasury.
Inadequate oversight and accountability regarding financial reporting and management.	• The Board supports the formulation of a dedicated Internal Control Review Committee as articulated on the remediation plan to track the internal controls remediation process, ensuring focus and accountability for the improvement of the overall internal control environment • Since the re-establishment of the Denel Internal Audit a year ago, it is commended for the critical role it is playing in strengthening accountability and transparency within the organisation. Through their independent assurance and objective insights, internal audit has added significant value by highlighting control weaknesses, monitoring compliance, and supporting effective risk management. Their ongoing engagement with both management and the board (through the ARC) is contributing to the enhancement of governance practices and continues to ensure greater alignment with our strategic objectives. Importantly, the internal audit function has helped entrench a culture of ethical conduct and openness, which is essential for sustaining stakeholder confidence in Denel SOC Limited.

IMPLEMENTATION OF REMEDIATION PLAN

As the implementation of the above remediation plan is still in its infancy, following line items in the 2024/25 Annual Financial Statements still have material misstatements (inaccuracies) as previously reported by the AGSA. The prior period errors as identified by AGSA have not been corrected in 2025 AFS.

AFS Line item	Impact
Property, plant and Equipment	• Inadequate internal controls to prepare and maintain fixed asset registers. • Inability to perform useful lives and residual values assessments
Intangible assets	Inadequate record keeping for intangible assets
Right of use asset	Incorrect application of IFRS16 in calculating the present value of lease payments
Investments in associated companies and income from associate	Incorrect application of IFRS in accounting for investment in associates
Deferred tax asset and taxation	Inadequate records to support the deferred tax and income tax calculation
Inventory	Inadequate controls in information technology systems leading to inadequate records to support the accounting of inventories
Trade and other receivables	Inadequate records to support trade and other receivables and the application of IFRS 9, financial Instruments
Contract assets	Inadequate records to support contract assets and the application of IFRS 9, financial Instruments
Post - retirement medical aid	Inadequate records to support post retirement medical aid benefit
Cash and cash equivalents	Inadequate records for foreign bank accounts
Non-Current Assets held for sale	Inadequate records to support non-current assets held for sale
Accumulated loss	Inadequate records to support accumulated loss
Borrowings	Inadequate records to support borrowings
Contract liabilities	Inadequate records to support contract liabilities
Advanced payments received	Inadequate records to support advance payments received
Deferred tax liability	Inadequate records to support tax liability
Provisions	Inadequate records to support provisions
Trade and other payables	Inadequate records to support trade and other payables
Leases liabilities	Incorrect application of IFRS16 in calculating the present value of lease payments
Revenue	Inadequate accounting systems leading to insufficient records to support revenue Inappropriate disclosure of IFRS15
Cost of sales	Inadequate records to support cost of sales
Other income	Inadequate records to support other income
Operating expenditure	Inadequate records to support other operating expenses
Finance costs	Inadequate records to support finance costs
Irregular, fruitless and wasteful expenditure	Inadequate processes to prevent, identify and disclose Irregular, fruitless and wasteful expenditure
Statement of cashflows	Incorrect calculation of Statement of cashflows
Contingent liabilities	Inadequate records to support contingent liabilities
Financial instruments and risk management	Inadequate disclosures on markets risks and sensitivity analyses
Segment reporting	Inadequate disclosure of segment report due to incorrect underlying documents.

6. Auditors

Auditor General continued in office as auditors for the company and its subsidiaries for 2025 financial year.At the AGM, the shareholders will be requested to reappoint the Auditor General as the independent external auditors of the company for the 2026 financial year.

7. 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

8. 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 53m (2023/24: R 18m). The Board requested management to conduct a full audit of all material supply chain purchases and to review the irregular expenditure identified.

9. Preparation of Annual Financial Statements

The annual financial statements set out on pages 78 to 182, which have been prepared on the going concern basis, were approved by the on 30 May 2025, and were signed on its behalf by:

Approval of financial statements

Ms AM Mokgabudi
Interim Chairperson of the Board

Mr OT Monaheng

REPORT OF THE AUDIT AND RISK COMMITTEE

Group Chief Executive Officer

The Audit and Risk Committee (the Committee) presents this report for the financial year that ended on 31 March 2025 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 40 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:

		Q1 (1 April 2024 – 30 June 2024)			Q2 (1 July 2024 – 30 Sept 2024)			Q3 (1 Oct 2024 – 31 Dec 2024)		Q4 (Jan – Mar 2025)	
COMMITTEE MEMBER	Total	15 April 2024	24 April 2024	24 May 2024	24 July 2024	Special 7 Aug . 2024	Special 4 Sept,2024	23 October 2024	Special 9 Dec 2024	28 Jan 2025	19 Feb 2025
Ms AMSS Mokgabudi (Chairperson)	10/10	√	√	√	√	√	√	√	√	√	√
Mr TH Magazi	10/10	√	√	√	√	√	√	√	√	√	√
Mr MM Mnisi	9/10	√	√	√	√	√	√	√	A	√	√
Ms MMT Ramano	6/10	√	√	√	√	A	√	A	A	√	A
STANDING INVITEES											
Mr OT Monaheng	9/10	√	T	√	√	√	√	√	√	√	√
Ms T Sabela	1/1	√	-	-	-	-	-	-	-	-	-
Mr ML Mukwevho[1]	6/7	-	-	-	√	√	√	√	A	√	√

A = Apology

T= Travelling

[1]= Appointed CFO on 1 July 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.

While there is a need for significant improvement, the Committee concluded that there was not a complete breakdown of internal controls, including internal financial controls.

Going Concern

The Committee reviewed management's assessment of the going-concern premise of the group and the company, and recommended to the Board that the group and the company 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 175.

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 2025 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 2025/26.

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 continue to be key focus area for FY2025/2026.

Material Irregularity

The following Material Irregularities have been issued by the AGSA:

- **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.
- **Material Irregularity 3 Utilisation of customer advance payments for various reasons other than originally intended for.** In the past Denel, received prepayments from the clients and utilised it in the manner not intended for. Subsequently, the funds needed to be repaid.

The Board responded to Material Irregularity 1 & 2 in May 2025 and Denel is currently in the process to implement the corrective changes. In respect of Material Irregularity 3, Denel received the notification on 4 November 2025 and at the finalisation of this report was in the process to finalise its response.

Responses to the Root Causes of the Audit Opinion

The Board accepts responsibility and accountability to develop remedial actions to address issues raised by the AGSA. Since the audit findings raised during FY2021 – FY202 audit, remedial actions have been implemented. The Board, as the Accounting Authority has:

- 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 Group CEO, with oversight by the Human Resources subcommittee has appointed suitably skilled finance divisional executives for Aerospace, Guided Weapons and, Landwards;

- 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;
- The Group ICT manager who is responsible for the formulation and implementation of the ICT strategy including remediation of the AGSA findings was appointed;
- The company 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 and its improvement;
- The finance function, its expertise and the management remediation plans;
- Monitoring of the financial, ICT and operational risks.

Key focus areas for the 2025/26 financial year:

- The adequacy, reliability and accuracy of financial information provided by management;
- The Governance of Risk and continuous monitoring of risk exposure;
- Continued focus on internal control environment;
- Monitor Cybersecurity and IT Risk Oversight;
- Consideration to geopolitical risks and global regulations;
- Monitor execution of the turnaround plan;
- Monitor improvement on operational delivery, revenue generation and liquidity;
- The effectiveness of the internal audit function;
- The activities of the internal audit function, including its annual audit plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations;
- The group's compliance with legal and regulatory provisions;
- Monitor improvement of the ICT control environment;
- Review and monitor the remedial plans of the external audit findings;
- Implementation and monitoring of the Combined Assurance model;
- Review of Annual Financial Statements;
- Change in External audit opinion.

Internal audit Function

The independent internal audit function has been in operation in a hybrid model during the financial year under the authority of the Chief Audit Executive (CAE). As a permanent Denel employee, the CAE administratively reports to the GCEO and has unrestricted access to the Chairperson of the Board and the chairperson of the committee. An internal audit charter is in place, which regulates the interaction between the group, management, internal auditors and the Board. For the sake of transparency and accountability, the charter is tabled annually to the committee for consideration and approval. 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 on page 180 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 2025 and considers that they comply, other than the matters disclaimed in the external auditor's report, with the requirements of the Companies Act, the PFMA and the International Financial Reporting Standards. The committee has recommended to the Board that Denel be reported as a going concern.

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

On behalf of the Audit and Risk Committee.

Mr TH Magazi
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 78 to 182 which comprise the consolidated and separate statements of financial position as at 31 March 2025, 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 public 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 non-submission of the underlying accounting records. I was unable confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to Property, plant and equipment stated at R571 million (2023-24: R582 million; 2022-23: R616 million) and R472 million (2023-24: R475 million; 2022-23: R493 million) in note 2 to the consolidated and separate financial statements.

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 2024 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 for the current period.

Right-of-use assets

7. I was unable to obtain sufficient appropriate audit evidence for the right of use assets due to non-submission of the underlying accounting records. I was unable to confirm the right of use assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to right-of-use asset stated at R115 million (2023-24: R116 million; 2022-23: R114 million) and R115 million (2023-24: R116 million; 2022-23: R114 million) in note 3 to the consolidated and separate financial statements.

8. During 2024, the group did not assess right-of-use assets for indicators of impairment in accordance with IAS 36 – Impairment of assets. Consequently, I was unable to determine the impact to right-of-use assets, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2024 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.

Investment properties

9. I was unable to obtain sufficient appropriate audit evidence for the investment properties due to non-submission of the underlying accounting records. I was unable to confirm the investment properties by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment properties stated at R1 005 million and R1 005 million in note 4 to the consolidated and separate financial statements.

Intangible assets

10. I was unable to obtain sufficient appropriate audit evidence for intangible assets due to non-submission of the underlying accounting records. I was unable to confirm the intangible assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to intangible assets stated at R43 million (2023-24: R45 million; 2022-23: R54 million) and R13 million (2023-24: R16 million; 2022-23: R24 million) in note 5 to the consolidated and separate financial statements.

Investment in subsidiaries

11. I was unable to obtain sufficient appropriate audit evidence for the investment in subsidiaries due to non-submission of the underlying accounting records. I was unable to confirm the investment in subsidiaries by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the investment in subsidiaries stated at R0 million (2023-24: R0) and R0 million (2023-24: R0) in note 6 to the consolidated and separate financial statements.

Investment in associated companies

12. I was unable to obtain sufficient appropriate evidence for investment in associated companies due to non-submission of the underlying accounting records. I was unable to confirm the investment in associated companies by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the investment in associated companies stated at R1 681 million (2023-24: R1 239 million; 2022-23: R1 178 million) and R427 million (2023-24: R427 million) in note 7 to the consolidated and separate financial statements.

13. During 2024, the group did not correctly account for the investment in associated companies 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 associated companies 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 associated companies in accordance with the requirements of International Financial Reporting Standards (IFRS) 5, Non-current assets held for sale and discontinued operations. Furthermore, 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 associated companies disclosed in note 7 to the consolidated financial statements being overstated by R123 million (2022-23: R123 million).My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2024 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 investment in associated companies for the current period.

Deferred tax and taxation

14. I was unable to obtain sufficient appropriate evidence for deferred tax and taxation due to non-submission of 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.

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

- Deferred tax asset stated at R4 million (2023-24: R3 million; 2022-23: R356 million) and R4 million (2023-24: R3 million; 2022-23: R90 million) in note 12 to the consolidated and separate financial statements.
- Deferred tax liability stated at R3 million (2023-24: R3 million; 2022-23: R4 million) and R3 million (2023-24: R3 million; 2022-23: R4 million) in note 12 to the consolidated and separate financial statements.
- Taxation stated at R0 million (2023-24: -R18 million; 2022-23: -R12 million) and R0 million (2023-24: R0 million; 2022-23: -R4 million) in note 32 to the consolidated and separate financial statements.

Inventories

16. I was unable to obtain sufficient appropriate audit evidence for inventories due to non-submission of underlying accounting records. I was unable to confirm inventories by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to Inventories stated at R1 906 million (2023-24: R1 895 million; 2022-23: R1 880 million) and R1 901 million (2023-24: R1 894 million; 2022-23 R1 801 million) in note 13 to the consolidated and separate financial statements.

17. 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 2024 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.

Trade and other receivables

18. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables due to non-submission 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 non-submission 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 R566 million (2023-24: R567 million; 2022-23: R510 million) and R604 million (2023-24: R573 million; 2022-23: R511 million) in note 9 to the consolidated and separate financial statements.

Contract asset

19. I was unable to obtain sufficient appropriate audit evidence for contract asset due to non-submission 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 R716 million (2023-24: R671 million; 2022-23: R590 million) and R715 million (2023-24: R671 million and 2022-23: R579 million) in note 10 to the consolidated and separate financial statements.

Prepayments made

20. I was unable to obtain sufficient appropriate audit evidence for prepayments made due to non-submission of the underlying accounting records. I was unable to confirm prepayments made by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prepayments made stated at R220 million (2023-24: R158 million; 2022-23: R213 million) and R218 million (2023-24: R156 million and 2022-23: R232 million) in note 25 to the consolidated and separate financial statements.

21. 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, as these transactions were not derecognised upon the utilisation of the prepayment. 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 2024 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

Loans receivables

22. 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 2024 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

23. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to non-submission of the underlying accounting records. I was unable to confirm cash and cash equivalents by alternative means. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R783 million (2023-24: R1 435 million; 2022-23: R3 770 million) and R778 million (2023-24: R1 429 million; 2022-23: R3 765 million) in note 15 to the consolidated and separate financial statements.

Reserves

24. I was unable to obtain sufficient appropriate evidence for reserves due to non-submission of 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 R129 million (2023-24: -R10 million; 2022-23: R53) million in note 17 to the consolidated financial statements.

Trade and other payables

25. I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to non-submission of the underlying accounting records. I was unable to confirm trade and other payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables stated at R1 413 million (2023-24: R1 219 million; 2022-23: R2 596 million) and R1 293 million (2023-24: R1 121 million; 2022-23: R2 459 million) in note 22 to the consolidated and separate financial statements.

Borrowings

26. I was unable to obtain sufficient appropriate audit evidence for borrowings due to non-submission 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 R183 million (2023-24: R122 million; 2022-23: R278 million) and R152 million (2023-24: R153 million; 2022-23: R296 million) in note 18 to the consolidated and separate financial statements.

Contract liabilities

27. I was unable to obtain sufficient appropriate audit evidence for contract liabilities due to non-submission of 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 282 million (2023-24: R1 492 million; 2022-23: R1 432 million) and R1 282 million (2023-24: R1 491 million; 2022-23: R1 405 million) in note 19 to the consolidated and separate financial statements.

Advance payments received

28. I was unable to obtain sufficient appropriate audit evidence for advance payments received due to non-submission of the underlying accounting records. I was unable to confirm the advance payments received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the advance payments received stated at R1 964 million (2023-24: R2 405 million; 2022-23: R2 446 million) and R1 883 million in note 21 to the consolidated and separate financial statements.

Provisions

29. I was unable to obtain sufficient appropriate audit evidence for provisions due to non-submission of the underlying accounting records. I could not confirm the provisions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to provisions stated at R515 million (2023-24: R481 million; 2022-23: R512 million) and R513 million (2023-24: R481 million; 2022-23: R422 million) in note 20 to the consolidated and separate financial statements.

30. 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 2024 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.

Lease liability

31. I was unable to obtain sufficient appropriate audit evidence for lease liability due to non-submission of the underlying accounting records. I could not confirm the lease liability by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to lease liability stated at R254 million (2023-24: R254 million; 2022-23:R251 million) and R254 million (2023-24: R254 million; 2022-23: R251 million) in note 3 to the consolidated and separate financial statements.

Revenue

32. I was unable to obtain sufficient appropriate audit evidence for revenue due to non-submission of the underlying accounting records. I was unable to confirm revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue stated at R1 272 million (2023-24: R1 324 million; 2022-23: R1 189 million) and R1 272 million (2023-24: R1 313 million; 2022-23: R1 159 million) in note 24 to the consolidated and separate financial statements.

33. 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 and R330 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 2024 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.

Cost of sales and other operating expenditure

34. I was unable to obtain sufficient appropriate audit evidence for cost of sales and other operating expenses due to non-submission of the underlying

accounting records. I could not confirm the cost of sales and other operating expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively:

- Cost of sales stated at R1 137 million (2023-24: R985 million; 2022-23: R998 million) and R1 127 million (2023-24: R970 million; 2022-23: R998 million) in note 26.
- Other operating expenses stated at R649 million (2023-24: R986 million; 2022-23: R1 324 million) and R685 million (2023-24: R1 237 million; 2022-23: R1 248 million).

35. 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 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 2024 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.

Other income

36. I was unable to obtain sufficient appropriate audit evidence for other income due to non-submission of the underlying accounting records. 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 R184 million (2023-24: R300 million; 2022-23: R1 437 million) and R282 million (2023-24: R285 million; 2022-23: R1 436 million) in note 27 to the consolidated and separate financial statements.

Other operating gains/(losses)

37. I was unable to obtain sufficient appropriate audit evidence for other operating gains/(losses) due to non-submission 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 R0 million (2023-24:R141 million) and R0 million (2023-24: R141 million) in note 28 to the consolidated and separate financial statements.

Finance cost

38. 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 R56 million (2023-24: R318 million; 2022-23: R453 million) and R56 million (2023-24: R311 million; 2022-23: R452 million) in note 31 to the consolidated and separate financial statements.

Net investment income

39. I was unable to obtain sufficient appropriate audit evidence for investment income due to non-submission of 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 R208 million (2023-24: R166 million and 2022-23: R23 million) and R208 million (2023-24: R166 million and 2022-23: R23 million) in note 30 to the consolidated and separate financial statements.

Share of profit/(loss) in associated companies

40. I was unable to obtain sufficient appropriate audit evidence for share of profit/(loss) in associated companies due to non-submission of the underlying accounting records. I could not confirm the share of profit/(loss) in associated companies by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to share of profit/(loss) in associated companies stated at R401 million in the consolidated financial statements.

Share of comprehensive income/loss of equity accounted investment

41. I was unable to obtain sufficient appropriate audit evidence for share of comprehensive income/(loss) in equity accounted investment due to non-submission of the underlying accounting records. I could not confirm the share of comprehensive income/(loss) in equity accounted investment by alternative means. Consequently, I was unable to

determine whether any further adjustments were necessary to share of comprehensive income/(loss) in equity accounted investment stated at R139 million in the consolidated financial statements.

Statement of cash flows

42. The group did not correctly calculate, prepare and disclose the cashflow statements, 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.

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

- Net cash flows from operating activities stated at -R599 million (2023-24: -R2 213 million; 2022-23: -R71 million) and -R599 million (2023-24: -R2 109 million; 2022-23: -R16 million).
- Net cash flows from investing activities stated at -R41 million (2023-24: -R5 million; 2022-23: R30 million) and -R42 million (2023-24: -R5 million; 2022-23: -R39 million).
- Net cash flows from financing activities, stated at -R12 million (2023-24: -R117 million; 2022-23: R3 303 million) and -R9 million (2023-24: -R221 million; 2022-23: R3 315 million).

Segment reporting

44. 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 non-submission 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 financial statements.

Prior period error

45. The group did not disclose all restatements of the corresponding figures to the financial statements as required by IAS 8, Accounting policies, changes in accounting estimates and errors.

46. 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 non-submission of 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

47. 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 due to non-submission of underlying schedules and registers. 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 R53 million (2023-24: R18 million and 2022-23: R28 million) and R53 million (2023-24: R18 million and 2022-23: R28 million) in note 43 to the consolidated and separate financial statements.

48. During 2024, not all irregular expenditure was included in note 43 to the financial statements as required by section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999 (PFMA) due to inadequate controls to maintain complete records of irregular expenditure. I was unable to determine the value of the misstatements, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2024 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 irregular expenditure for the current period.

Fruitless expenditure

49. 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 non-submission of underlying schedules and registers. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful disclosed at R4 million (2023-24: R6 million; 2022-23: R0 million) and R4 million (2023-24: R6 million; 2022-23: R0 million) in note 44 to the consolidated and separate financial statements.

50. During 2024, not all fruitless and wasteful expenditure was included in note 44 to the financial statements, as required by section 55(2)(b)(i) of the PFMA due to inadequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to determine the value of the misstatements, as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2024 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 fruitless and wasteful expenditure for the current period.

Related parties

51. I was unable to obtain sufficient appropriate audit evidence for the related party transactions and balances due to non-submission of 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.

Contingent liabilities

52. I was unable to obtain sufficient appropriate audit evidence for the contingent liabilities due to non-submission of 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.

53. During 2024, 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. My audit opinion on the consolidated and separate financial statements for the period ended 31 March 2024 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 contingent liabilities for the current period.

Financial Instruments and risk management

54. I was unable to obtain sufficient appropriate audit evidence for the financial instruments and risk management disclosure due to non-submission 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.

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

55. 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.

56. 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

57. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing (ISA) 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.

58. 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

59. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

60. I selected the following material performance indicators related to Liquidity objective presented in the annual performance report for the year ended 31 March 2025. I selected those indicators that measure the public entity's performance on its primary mandated functions and that are of significant national, community or public interest.

- Reduction of creditors backlog
- Cash generated from operations
- Trade receivables
- Current ratio (CR)
- Debt ratio (DR)

61. I was engaged I was engaged to evaluate the reported performance information for the selected material performance indicators relating to liquidity objective against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the public entity 's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

62. The material finding on the reported performance information for the selected material performance indicators are as follows:

- Primary mandated functions not prioritised

63. Various primary mandated functions were not prioritised for delivery in the performance year. Consequently, these functions were not adequately planned or accounted for, which is likely to result in them not being delivered and undermines transparency and accountability.

Primary mandated function	Reason provided by management for non-prioritisation
Supplying the RSA defence and security environment with strategic technological capability, products, services and support, including exporting to key international markets. Enhancing the local technology and manufacturing base through the designing, development and application of advanced technologies	No reason was provided

- **Various indicators**

64. I did not audit some of the indicators and their targets, as they were not approved during planning and included in the initial planning documents. The reported performance information is not consistent with the commitments made during planning and, as a result, it holds little value for the accountability process.

Indicator	Target
Trade receivables	60 days
Current ratio (CR)	1,5
Debt ratio (DR)	0,8

- Various indicators

65. Supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved. Furthermore, adequate supporting evidence to clarify the methods and processes for measuring achievements on these indicators and their targets were not provided. Consequently, the public entity would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicator	Target	Reported achievement
Reduction of creditors backlog	>80%	nothing reported
Cash generated from operations	>R1m	nothing reported

Other matter

66. I draw attention to the matter below.

Achievement of planned targets

67. The annual performance report includes information on reported achievements against planned targets. This information should be considered in the context of the material findings on the reported performance information.

68. The table that follows provides information on the achievement of planned targets and lists the key indicators that were not achieved as reported in the annual performance report.

Liquidity objective

Targets achieved: nothing reported		
Key indicator not achieved	**Planned target**	**Reported achievement**
Reduction of creditors backlog	>80%	nothing reported
Cash generated from operations	>R1m	nothing reported
Trade receivables	60 days	nothing reported
Current ratio (CR)	1,5	nothing reported
Debt ratio (DR)	0,8	nothing reported

Material misstatements

69. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for liquidity objective. Management did not correct the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

70. 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.

71. 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.

72. 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.

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

Annual financial statements and annual report

74. 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. Financial statements submitted for audit were not supported by underlying accounting records and material misstatements identified by the auditors in the submitted financial statements were not corrected, which resulted in the financial statements receiving a disclaimer of opinion.

Revenue management

75. 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.

Liability management

76. I was unable to confirm whether credit card(s) were obtained for purposes other than those set out in treasury regulation 31.2.7, in contravention of treasury regulation 31.2.5.

SOE governance and oversight

77. 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.

78. Approved audited financial statements were not filed with the annual return within the prescribed period, as required by section 33(1)(a) of the Companies Act and 30(2) of the Companies Regulation.

Strategic planning

79. The corporate plan did not include the strategic objectives and outcomes as identified and agreed on by the executive authority in the shareholder's compact, as required by treasury regulation 29.1.1(a).

80. 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).

Expenditure management

81. 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.

82. 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 of opinion the value disclosed in note 44 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred.

Consequence management

83. 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.

84. 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.

Procurement and contract management

85. I was unable to obtain sufficient appropriate audit evidence that some contracts and quotations were awarded in accordance with the legislative requirements as information relating to those awards were not provided for audit purpose.

86. Some of the goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

87. Construction contracts were awarded to contractors that did not qualify for the contract in accordance with Construction Industry Development Board (CIDB) Regulations 17 and 25(7A).

Other information in the annual report

88. The accounting authority is responsible for the other information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information referred to does not include the

consolidated and separate financial statements, the auditor's report and those selected material indicators in the scoped-in objective presented in the annual performance report that have been specifically reported on in this auditor's report.

89. My opinion on the consolidated and separate financial statements and my reports on the audit of the annual performance report and 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.

90. 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 and the selected material indicators in the scoped-in objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

91. 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

92. 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.

93. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the selected material indicators included in the annual performance report and the material findings on compliance with legislation included in this report.

94. 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.

95. 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 ensure that financial statements submitted for audit are supported by valid and complete underlying accounting records including registers and schedules.

96. Management did not have designed effective internal controls over the preparation of financial information reporting at division and subsidiary levels that drive disciplines around daily and monthly financial discipline to ensure credible financial and performance reporting for all divisions and subsidiaries. Effective and appropriate measures were not implemented to ensure that subsidiaries prepare and submit financial statements for audit that are supported by valid and complete underlying accounting records including registers and schedules.

97. 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.

98. Management did not exercise adequate oversight responsibility to ensure the effectiveness of the internal control environment including compliance with laws and regulations. There were number of identified and reported material non-compliances with various legislations during the audit.

99. The accounting authority and management did not exercise adequate oversight responsibility regarding performance planning and reporting, to ensure that key performance indicators relating to the core mandate of the public entity are included in the shareholder compact and reported on in the annual performance report. Consequently, this resulted in material non-compliance by the entity.

100. The accounting authority and management did not exercise adequate oversight responsibility regarding performance planning and reporting, to ensure that all the reported indicators and targets of the public entity are relevant, are consistent to what was planned. Consequently, this resulted in material findings on the annual performance report regarding scoped in objective.

101. Management did not prepare an annual performance report that is supported by reliable and accurate information. Consequently, this resulted in material findings on the validity, accuracy and completeness of reported achievement in the annual performance report.

102. Management did not prepare complete annual performance reporting that is supported by reliable evidence.

Material irregularities

103. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Material irregularities in progress

104. I identified a material irregularity during the audit and notified the accounting authority, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting authority was not yet due. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

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

105. 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.

106. The nature of the weaknesses identified during the review of the financial statements was severe and similar to what had been reported in previous financial years. The weaknesses identified confirmed that the board has not implemented previous audit recommendations and has not maintained effective, efficient and transparent systems of financial and risk management and internal controls.

107. 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.

108. 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.

109. 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

110. The accounting authority is currently in the process of implementing the planned actions to resolve the material irregularity. I will report on progress made on the implementation of the planned actions during my next audit.

ICT environmental failures that led to data loss

111. 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.

112. 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.

113. 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:

- Cybersecurity 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.

114. 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 material irregularity.

115. The accounting authority has 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

116. The accounting authority is currently in the process of implementing the planned actions to resolve the material irregularity. I will report on progress made on the implementation of the planned actions during my next audit.

Other reports

117. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

118. 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:

- 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.

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

Pretoria

07 November 2025

Auditor-General

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 ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected material performance indicators 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
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) Section112(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)

Legislation	Sections or regulations
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)
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 2025

	Notes	GROUP			COMPANY		
		2025	2024	2023	2025	2024	2023
		R'm	R'm	R'm	R'm	R'm	R'm
ASSETS							
Non-current assets		3 419	2 990	3 256	2 036	2 042	2 030
Property, plant and equipment	2	571	582	616	472	475	493
Right of use asset	3	115	116	114	115	116	114
Investment properties	4	1 005	1 004	938	1 005	1 004	938
Intangible asset	5	43	45	54	13	16	24
Investments in subsidiaries	6	-	-	-	-	-	-
Investments in associated companies	7	1 681	1 239	1 178	427	427	371
Deferred tax asset	12	4	3	356	4	3	90
Current assets		4 192	4 727	6 983	4 217	4 724	7 057
Inventory	13	1 906	1 895	1 880	1 901	1 894	1 801
Trade and other receivables	9	566	567	510	604	573	511
Contract assets	10	716	671	590	715	671	579
Prepayments made	25	220	158	213	218	156	232
Post - retirement medical aid	11	1	1	1	1	1	1
Loan receivable	8	-	-	-	-	-	168
Income tax receivables	14	-	-	19	-	-	-
Cash and cash equivalents	15	783	1 435	3 770	778	1 429	3 765
Non-Current Assets held for sale	23	-	-	77	-	-	57
Total assets		**7 611**	**7 717**	**10 316**	**6 253**	**6 767**	**9 144**
EQUITY AND LIABILITIES							
Equity							
Share capital	16	15 204	15 204	15 204	15 204	15 204	15 204
Preference shares		-	-	-	-	-	-
Capital invested		-	-	-	-	-	-
Reserves	17	129	(10)	53	31	31	29
Accumulated loss		(13 336)	(13 472)	(12 539)	(14 360)	(14 315)	(13 320)
		1 997	1 722	2 718	875	920	1 913
Non-controlling interest		-	-	-	-	-	-
Total equity		**1 997**	**1 722**	**2 718**	**875**	**920**	**1 913**
Liabilities							
Non-current liabilities		938	742	573	936	742	493
Borrowings	18	136	-	-	136	-	-
Contract liabilities	19	24	24	47	24	24	47
Advanced payments received	21	135	135	136	135	135	136
Deferred tax liability	12	3	3	4	3	3	4
Provisions	20	405	345	386	403	345	306
Leases		235	235	-	235	235	-
Current liabilities		4 676	5 251	6 980	4 443	5 104	6 739
Trade and other payables	22	1 413	1 219	2 596	1 293	1 121	2 459
Borrowings	18	47	122	278	16	153	296
Leases liabilities	3	19	19	251	19	19	251
Contract liabilities	19	1 258	1 467	1 385	1 258	1 467	1 358
Provisions	20	110	136	126	110	136	116
Prepayments received	21	1 829	2 270	2 310	1 748	2 190	2 240
Bank overdraft	15	-	18	35	-	18	21
Liabilities directly associated with assets held for sale	23	-	-	48	-	-	-
Total liabilities		**5 614**	**5 993**	**7 601**	**5 379**	**5 846**	**7 232**
Total equity and liabilities		**7 611**	**7 715**	**10 319**	**6 254**	**6 767**	**9 146**

DENEL STATEMENT OF PROFIT AND LOSS
for the year ended 31 March 2025

	Notes	GROUP			COMPANY		
		2025	2024	2023	2025	2024	2023
		R'm	R'm	R'm	R'm	R'm	R'm
Revenue	24	1 272	1 324	1 189	1 272	1 313	1 159
Cost of sales	26	(1 137)	(985)	(998)	(1 127)	(970)	(998)
Gross profit / (loss)		**135**	**339**	**192**	**145**	**344**	**162**
Other income	27	184	300	1 437	282	285	1 436
Other operating gains / (losses)	28	-	(141)	(42)	-	(141)	(42)
Operating expenditure		(649)	(986)	(1 324)	(685)	(1 237)	(1 248)
Operating (loss) / profit	**29**	**(330)**	**(488)**	**263**	**(258)**	**(750)**	**308**
Finance costs	31	(56)	(318)	(453)	(56)	(311)	(452)
Net Investment income	30	208	166	23	208	166	23
Share of profit / (loss) in associated companies		401	125	(20)	-	-	-
Profit / (loss) before tax		**223**	**(514)**	**(188)**	**(106)**	**(895)**	**(121)**
Taxation expense	32	-	(18)	(12)	-	-	(4)
Profit/ (loss) for the year		**223**	**(532)**	**(200)**	**(106)**	**(895)**	**(125)**
						-	-
Other comprehensive income / (loss)							
Items that will not be reclassified to profit or (loss):				56			
Share of comprehensive income / (loss) of equity accounted investments		139	(65)	(24)	-	-	-
Other comprehensive income for the year net of taxation		-	-	-	-	-	-
Total comprehensive profit / (loss) for the year		**362**	**(597)**	**(224)**	**(106)**	**(895)**	**(125)**

DENEL GROUP STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2025

	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 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
Total comprehensive Loss for the year			-	-12	-	-65	-532	-597
Other Adjustments		-	-	2	-	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**	**-10**	**-**	**-10**	**-13 472**	**1 722**
Profit for the year			-			-	223	223
Other comprehensive income			-	139		139		139
Total comprehensive profit for the year			-	139	-	139	223	362
Other Adjustments		-	-	-	-	-	-87	-87
Total contributions by distributions to owners of company recognised directly in equity		-	-	-		-		-
Balance at 31 March 2025	**1 225**	**13 979**	**15 204**	**129**	**-**	**129**	**-13 336**	**1 997**
Company								
Restated Balances at 01 April 2023	1 225	13 979	15 204	29	-	29	-13 279	1 954
Loss for the year			-			-	-895	-895
Prior Period Error							-	-
Other comprehensive income			-	-		-	-	-
Total comprehensive Loss for the year			-	-	-	-	-895	-895
Other 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
Loss for the year			-			-	-106	-106
Other comprehensive income			-	-		-		-
Total comprehensive Loss for the year			**-**	**-**	**-**	**-**	**-106**	**-106**
Adjustments		-	-	-	-	-	61	61
Total contributions by distributions to owners of company recognised directly in equity		-	-	-		-		-
Balance at 31 March 2025	**1 225**	**13 979**	**15 204**	**31**	**-**	**31**	**-14 360**	**875**

DENEL GROUP STATEMENT OF CASH FLOW
for the year ended 31 March 2025

	Group			Company		
	2025	2024	2023	2025	2024	2023
Cash Flows from operating activities						
Cash used (generated) in operations	-849	-2 227	356	-849	-2 123	410
Interest income	208	166	23	208	166	23
Finance costs	-56	-152	-450	-56	-152	-449
Dividends received	98	-		98	-	
Tax paid		-			-	
Net cash from operating activities	**-599**	**-2 213**	**-71**	**-599**	**-2 109**	**-16**
Cash Flows from investing activities						
Purchase of property, plant and equipment	-42	-5	-59	-42	-5	-55
Proceeds from sale of property, plant and equipment	1		89		-	16
Purchases of intangible assets						
Net cash from investing activities	**-41**	**-5**	**30**	**-42**	**-5**	**-39**
Cash Flows from financing activities						
Proceeds on issue of share capital		-	3 583		-	3 583
Long-term borrowings	-12	-114	-167	-9	-218	-148
Repayments of lease liabilities		-3	-3		-3	-3
Overdraft		-	16		-	2
Advanced payment			-126			-119
Net cash from financing activities	**-12**	**-117**	**3 303**	**-9**	**-221**	**3 315**
Total cash movement for the year	-652	-2 335	3 262	-650	-2 335	3 260
Cash and cash equivalents at the beginning of the year	1 435	3 770	508	1 428	3763	506
Cash and cash equivalents at the end of the year	**782**	**1 435**	**3 770**	**778**	**1 428**	**3 766**

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 2025 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 PREPARSSATION

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.

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

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.

ACCOUNTING POLICIES

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.

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.

ACCOUNTING POLICIES

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' agreements for all associated companies whether the following:

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

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

Deferred tax asset

Management has made a judgment that there will be future taxable profits against which the deferred 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.

ACCOUNTING POLICIES

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.

ACCOUNTING POLICIES

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 determines if its contracts do include significant financing component where there is a substantial difference between the consideration and the cash selling price and where contracts are longer than 12 months. Negotiations for competitive international export contracts factor in the cash payment profile of the customer.

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.

ACCOUNTING POLICIES

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 lows 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.

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.

ACCOUNTING POLICIES

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.

ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

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

Financial liabilities

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

Loans and borrowings

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

Trade and other payables

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

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.

ACCOUNTING POLICIES

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%

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 Other Income

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.

ACCOUNTING POLICIES

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.

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.

ACCOUNTING POLICIES

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 lesse

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.

ACCOUNTING POLICIES

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.

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.

ACCOUNTING POLICIES

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 form 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.

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.

ACCOUNTING POLICIES

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.

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.

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.

ACCOUNTING POLICIES

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.

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:

ACCOUNTING POLICIES

Work-in-progress and finished products

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

Consumable inventories

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

1.6.12 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.

ACCOUNTING POLICIES

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 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.

1.6.17 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.

ACCOUNTING POLICIES

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 2025

2. PROPERTY, PLANT AND EQUIPMENT

Group	2025			2024			2023		
	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value
Land	56	-	56	56	-	56	56	-	56
Buildings	572	(295)	277	571	(290)	281	465	(263)	202
Plant and machinery	1 652	(1 460)	192	1616	(1 437)	179	1432	(1 126)	306
Motor vehicles	79	(67)	12	76	(60)	16	72	(62)	10
Office equipment	46	(45)	1	47	(44)	3	28	(25)	3
IT equipment	223	(201)	22	226	(209)	17	144	(126)	18
Capital - Work in progress	11	-	11	31	-	31	21	-	21
Total	**2 639**	**(2 068)**	**571**	**2 623**	**(2 040)**	**583**	**2 218**	**(1 602)**	**616**

Reconciliation of property, plant and equipment - Group - 2025	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	56	-	-	-	-	-	56
Buildings	281	-	-	-	(4)	-	277
Plant and machinery	179	35	-	-	(22)	-	192
Motor vehicles	10	3	-	-	(1)	-	12
Office equipment	3	-	-	-	(2)	-	1
IT equipment	17	4	-	-	-	-	21
Capital - Work in progress	31	-	-	-	(20)	-	11
	578	**42**	**-**	**-**	**(49)**	**-**	**571**

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**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Company	2025			2024			2023		
	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	
Land	56	-	56	56	-	56	56	-	56
Buildings	475	(272)	203	474	(265)	209	475	(266)	209
Plant and machinery	1 303	(1 144)	159	1 301	(1 150)	151	1302	(1 126)	176
Motor vehicles	72	(60)	12	72	(56)	16	72	(62)	10
Office equipment	28	(28)	0	28	(26)	3	28	(25)	3
IT equipment	147	(129)	18	147	(130)	17	144	(126)	18
Capital - Work in progress	24	-	24	24	-	24	21	-	21
Total	**2 105**	**(1 633)**	**471**	**2 102**	**(1 627)**	**475**	**2 098**	**(1 605)**	**493**

Reconciliation of property, plant and equipment - Company - 2025	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	56	-			-		56
Buildings	206	-			(3)		203
Plant and machinery	157	22			(20)		159
Motor vehicles	10	3			(1)		12
Office equipment	2	-			(1)		1
IT equipment	18	3			(3)		18
Capital - Work in progress	24	-					24
	473	28	-	-	(28)	-	472
							1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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)	-	18
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**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

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	2025			2024			2023		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	243	(128)	115	243	(127)	116	238	(125)	113
Computer equipment	1		-	1		-	1	(1)	-
	244	(129)	115	244	(128)	116	239	(127)	113

Reconciliation of Leases- Group - 2025	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total
Land	-						-
Buildings	116						115
Computer equipment	-						-
	116	-	-	-		-	115

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)	-	-	0
	151	-	-	-7	(31)	-	113

Company	2025			2024			2023		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	243	(128)	115	243	(127)	113	238	(125)	113
Computer equipment	1		-	1		-	1		-
	244	(129)	115	244	(128)	113	239	(126)	113

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

3. LEASES (GROUP AS LESSEE) (CONTINUED)

Reconciliation of Leases- Company - 2025	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total
Land	-	-	-	-	-	-	-
Buildings	116	-	-	-		-	115
Computer equipment	-	-	-	-	-	-	-
	116	-	-	-		-	115

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

Reconciliation of Leases- Company - 2023	Opening balance	Additions	Disposals	Adjustments for lease reassessments	RUA Depreciation	RUA Impairment	Total
Land	-	-	-	-	-	-	-
Buildings	149	-	-	(5)	(31)	-	113
Computer equipment	2	-	-	(2)	-	-	0
	151	-	-	(7)	(31)	-	113

Net carrying amounts of right-of-use assets	Group			Company		
	2025	2024	2023	2025	2024	2023
The carrying amounts of right-of-use assets are included in the following line items:						
Buildings	115	116	23	115	116	23

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:

	Group 2025	Group 2024	Group 2023	Company 2025	Company 2024	Company 2023
Current liabilities	19	19	251		19	251
Non-current lease liabilities	235	235			235	

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 2025

4. INVESTMENT PROPERTY

Group	2025			2024			2023		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	1,005	-	1,005	1,004	-	1,004	938	-	938

Company	2025			2024			2023		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	1,005	-	1,005	1,004	-	1,004	938	-	938

	Group			Company		
	2025	2024	2023	2025	2024	2023
Fair value at 1 April	939	938	898	939	938	898
Fair value adjustment	66	66	40	66	66	40
Transfer to assets held for sale	-	-	-	-	-	-
Fair value at 31 March	**1,005**	**1,004**	**938**	**1,005**	**1,004**	**938**

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 2025

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

5. INTANGIBLE ASSETS

Group	2025			2024			2023		
	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value
Computer software	183	(152)	31	178	(147)	31	179	(145)	34
Intangible assets	203	(195)	8	203	(193)	10	203	(191)	12
Other intangible assets	4	-	4	4	-	4	8	-	8
Total	**390**	**(347)**	**43**	**386**	**(340)**	**45**	**390**	**(336)**	**54**

Company	2025			2024			2023		Carrying Value
	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	Carrying Value	Cost	Accummulated Depreciation	
Computer software	149	(148)	1	149	(147)	2	149	(145)	4
Intangible assets	203	(195)	8	203	(193)	10	203	(191)	12
Other intangible assets	4	-	4	4	-	4	8	-	8
Total	**356**	**(343)**	**13**	**356**	**(340)**	**16**	**360**	**(336)**	**24**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

Reconciliation of intangible assets - Group - 2025	Opening balance Amortisation Total	Amortisation	Additions	Disposals	Total
Computer software, other	31	(2)	-	-	29
Intangible assets	10	-	-	-	10
Other intangible assets	4	-	-	-	4
	45	**(2)**	**-**	**-**	**43**

Reconciliation of intangible assets - Group - 2024	Opening balance Amortisation Total	Amortisation	Additions	Disposals	Total
Computer software, other	34	(2)	-		31
Intangible assets	12	(2)	-	-	10
Other intangible assets	8	-	-	(4)	4
	54	**(4)**	**-**	**(5)**	**45**

5. INTANGIBLE ASSETS (CONTINUES)

Reconciliation of intangible assets - Group - 2023	Opening balance Amortisation Total	Amortisation	Additions	Disposals	Total
Computer software, other	37	(3)	-	-	34
Intangible assets	17	(5)	-	-	12
Other intangible assets	8	-	-	-	8
	62	**(8)**	**-**	**-**	**54**

Reconciliation of intangible assets - Company - 2025	Opening balance Amortisation Total	Amortisation	Additions	Disposals	Total
Computer software, other	2	(2)	-	-	(1)
Intangible assets	10		-	-	9
Other intangible assets	4	-	-	-	4
	16	**(3)**	**-**	**-**	**13**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

Reconciliation of intangible assets - Company - 2024	Opening balance Amortisation Total	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 Total	Amortisation	Additions	Disposals	Total
Computer software, other	7	(3)	-	-	4
Intangible assets	17	(5)	-	-	12
Other intangible assets	8	-	-	-	8
	32	**(8)**	**-**	**-**	**24**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

6. INVESTMENTS IN SUBSIDIARIES

	2025	2024	2023
Unlisted shares	836	836	836
Accumulated impairment	(836)	(836)	(836)
	-	-	-
The accumulated impairment loss on investments in subsidiaries and divisions is as follows:			
Unlisted shares	-	-	-
Impairment for the year	-	-	-
Balance at 1 April	-	-	-
	-	-	-

Company		2025			2024			2023		
	% holding 2025	Opening balance	Impairment	Carrying amount 2025	Opening balance	Impairment	Carrying amount 2024	Opening balance	Impairment	Carrying amount 2023
Denel Aerostructures SOC Ltd	100%	-	-	-	-	-	-	-	-	-
Densecure SOC Ltd	100%	8	(8)	-	8	(8)	-	8	(8)	-
Denel Vehicles Systems (Pty) Ltd	100%	-	-	-	-	-	-	-	-	-

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 quantitively 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.

>In April 2015, Denel SOC Limited acquired 100% of Land Systems South Africa (Pty) Ltd (subsequently renamed Denel Vehicle Systems) from BAE Systems. Denel Vehicle Systems is accounted for as a subsidiary of Denel SOC Limited.

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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

7. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

Rheinmetall Denel Munitions (Pty) Ltd specialises in the design, development and manufacture of large and mediumcalibre 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.

R98m was received as dividends from Rheinmetall Denel Munitions (Pty) Ltd in the current year.

		Denel SOC Ltd		Equity partner	
Associated company	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	30	2	70	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 income after tax attributable to the material associated companies for the year-end 31 December 2025 was R138m (R65m loss 2024/23). 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 R1681m (R1239m for 2024/23). The attributable comprehensive loss of R65m for 2024/23 has been offsetted against 2024/23's generated profits of the associated company before the investment was recognised in the company's accounting records.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

7. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Cost of investments in associated companies						
Unlisted shares	427	427	371	427	371	371
Prior Period Error ^	-	-	56		56	
Restated Unlisted shares	427	427	427	427	427	371
Net share of results in associated companies	1,254	812	751	-	-	-
Share of current profit before tax	516	(234)	268	-	-	-
Share of current year tax	(115)	359	(194)	-	-	-
Share of current year profit after tax (refer note 35)	401	125	74	-	-	-
Dividends paid	(98)	-	-	-	-	-
Transferred to non current asset held for sale - Hendsoldt	-	-	(40)	-	-	-
Prior Period error - Transferred from non current asset held for sale - Hendsoldt	-	-	185			
Share of other comprehensive income _ fair value hedge	139	(65)	(24)		-	-
Impairment of Investment in Barij	-	-	-	-	-	-
Accumulated profit at 1 April	812	752	738			
Prior Period Error - Correction of Barij Dividends*	-	-	(61)	-	-	-
Prior Period Error - Overstatement of RDM's profits #	-	-	(26)			
Prior Period Error - Overstatement of RDM's profits #	-	-	(94)	-	-	-
Net investments in associated companies	**1,681**	**1,239**	**1,178**	**427**	**427**	**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 relatematerial.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

7. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

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

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Cost of investment in associated companies						
Hensoldt Optronics (Pty) Ltd	213	255			56	
Hensoldt Optronics (Pty) Ltd prior period error	-	-	241			56
Hensoldt Optronics (Pty) Ltd - Restated	**213**	**255**	**241**	**-**	**56**	**56**
Rheinmetall Denel Munitions (Pty) Ltd	1,458	952	1,061		371	371
Rheinmetall Denel Munitions (Pty) Ltd prior period error	-	-	(26)			
Rheinmetall Denel Munitions (Pty) Ltd - Restated	**1,458**	**952**	**1,035**	**-**	**371**	**371**
Barij Dynamics LLC (previosly Tawazun Dynamics)	11	31	58	-	-	-
Barij Dynamics LLC (previosly Tawazun Dynamics) prior period error	-	-	(156)			
Barij Dynamics LLC (previosly Tawazun Dynamics) - Restated	**11**	**31**	**(98)**	**-**	**-**	**-**
Net investments in associated companies	1,681	1,239	1,119	-	427	371
Net investments in associated companies - Restated	1,681	1,239	1,178	-	427	427

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 acounting policy in this regard. Rheinmetall Denel Munition (Pty) Ltd is considered to be a material associated company as a result of the quantitative nature of its results and is disclosed separately. 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 Financial Position

Total assets	**7,659**	**6,039**	**5,370**
Non-current assets	2,387	1,723	1,092
Current assets excluding cash and cash equivalents	5,272	4,101	3,540
Cash and cash equivalents	418	215	738
Total liabilities	**4,742**	**4,151**	**3,448**
Non-current liabilities	1,622	2,284	792
Current liabilities	3,120	1,868	2,656
Current liabilities excluding trade and other payables and provisions	1,814	818	1,644
Net assets	2,917	1,888	1,922
Group's share of associated company's net assets	1,429	941	775

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

7. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

Summarised Statement of Profit or Loss and Other Comprehensive Income	2025	2024	2023
Revenue	**4,716**	**3,246**	**1,573**
Group's share of revenue	**2,311**	**1,296**	**483**
Profit before tax	1,000	375	(72)
Group's share of profit after tax	**490**	**160**	**(65)**
Profit after tax	946	376	(96)
Group's share of revenue	**464**	**160**	**(72)**
Depreciation and armotisation	(100)	(96)	(45)
Group's share of depreciation and armotisation	**(49)**	**(35)**	**(14)**
Interest income	15	134	56
Group's share of interest income	**7**	**40**	**17**
Interest expense	(75)	(269)	(107)
Group's share of interest expense	**(37)**	**(86)**	**(34)**
Income tax expense	(254)	2	(25)
Group's share of income tax expense	**(124)**	**0**	**(8)**

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 Financial Position

Total assets	**6,312**	**6,491**	**4,019**
Non-current assets	1,157	869	511
Current assets (excluding cash and cash equivalents)	5,155	5,331	3,399
Cash and cash equivalents	161	291	109
Total liabilities	**4,274**	**4,450**	**2,591**
Non-current liabilities	1,423	992	223
Current liabilities	2,852	3,458	2,368
Net assets	2,038	2,041	1,428
Group's share of associated company's net assets	**847**	**827**	**550**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

7. INVESTMENT IN ASSOCIATED COMPANIES (CONTINUED)

Summarised Statement of Profit or Loss and Other Comprehensive Income	2025	2024	2023
Revenue	1,638	3,554	3,930
Group's share of revenue	654	1,742	1,926
Profit before tax^	(43)	150	563
Group's share of profit/(loss) after tax^	(6)	73	276
Profit after tax*	(186)	146	387
Group's share of profit after tax*	(64)	71	190
Depreciation and armotisation	(75)	(86)	(86)
Group's share of depreciation and armotisation	(26)	(42)	(42)
Interest income	124	10	3
Group's share of interest income	40	5	1
Interest expense	(146)	(123)	(128)
Group's share of interest expense	(46)	(60)	(62)
Income tax expense	33	61	(155)
Group's share of income tax expense	9	30	(76)

8. LOANS AND RECEIVABLES

	2025	2024	2023
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 2025

9. TRADE AND OTHER RECEIVABLES

	2025 Rm	2024 Rm	2023 Rm	2025 Rm	2024 Rm	2023 Rm
Financial instruments	442	497	408	480	505	410
Trade receivables	211	347	306	177	314	266
Trade receivables - intergroup	-	-	13	72	41	56
Interest receivables	3	6	1	3	6	1
Sundry receivables	228	144	87	228	144	87
Non-financial assets	124	71	103	124	69	101
Work performed not yet invoiced	-	-	-	-	-	-
Straight line receivables	64	64	64	64	64	64
Sundry receivables	60	6	38	60	5	37
	566	567	510	604	574	511
Accumulated impairment						
Balance at 1 April	(102)	(96)	(120)	(101)	(96)	(120)
Business acquired	-	-	-	-	-	-
Impairment for the year	(21)	(10)	(4)	(21)	(10)	(4)
Impairment reversal for the year	13	5	28	13	5	28
Recovered during the year	-	-	-	-	-	-
Written off as non-collectible	6	1	0	6	1	0
	(104)	(101)	(96)	(103)	(101)	(96)
Gross	670			707		

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.

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.

Rand Amount	-	432	981	-	514	787

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

10. CONTRACT ASSETS

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Contract assets	735	692	603	735	681	592
Loss allowance	(18)	(21)	(13)	(18)	(10)	(13)
	717	671	590	717	671	579
Opening Balance	671	590	558	671	579	547
Adjustment	53	83	-	53	85	-
IFRS Change	-	6	-	-	6	-
Other	11	13	32	11	13	32
Impairment	(18)	(21)	-	(18)	(12)	-
	717	671	590	717	671	579

11. POST-RETIREMENT OBLIGATIONS

	2025	2024	2023
	Rm	Rm	Rm

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.

	2025	2024	2023
Change in defined benefit funded obligation			
Present value of funded obligations at 1 April	-	-	-
Interest cost on projected benefit obligation	-	-	-
Remeasurement	-	-	-
Benefits paid	-	-	-
Present value of funded obligations at 31 March	**-**	**-**	**-**
Change in plan assets			
Fair value of plan assets at 1 April	-	-	-
Expected return on plan assets	-	-	-
Remeasurement	-	-	-
Benefits paid	-	-	-
Present value of funded obligations at 31 March	**-**	**-**	**-**
Fund excess	-	-	-
Excess not recognised	-	-	-
Unrecognised actuarial gains	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

11.1 DENEL MEDICAL BENEFIT TRUST (DMBT) (CONTINUED)

	2025 Rm	2024 Rm	2023 Rm
Net benefit expenses			
Interest cost	-	-	-
Expected return on plan assets	-	-	-
Income	-	-	-
The principal actuarial assumptions used for accounting purposes were:			
Expected return on plan assets	-	-	-
Expected medical inflation	-	-	-
The beneficiary members from the funds are as follows:			
Active members	-	-	-
Retired members	-	-	-

	Increase %	Increase %	Decrease %	Decrease %
A 1.0% change in assumed healthcare cost trend rateswould have the following effects on the defined benefitobligation	9	9	7	9

Amounts for the current and previous four years are as follows:	2022 R	2022 R	2021 R	2019 R
Defined benefit obligation	-375	-375	-374	-409
Plan assets	1,645	1,645	1,485	1,326
Surplus	1,270	1,270	1,111	917
Experience adjustments on plan liabilities	-	-	-9	-

Discount rate Variation	Health care cost inflation	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
+1%	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 2025

12. DEFEERED TAX

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Net deferred tax asset comprises						
Property plant and equipment	-	-	266	-	-	-
Advance payments received	(14)	(14)	-	(14)	(14)	-
Amounts due to customers for work invoiced, not yet performed	-	-	-	-	-	-
Capital allowances	-	-	-	-	-	-
Limit defered tax asset to liability	1	1	-	1	1	-
Provisions	16	16	-	16	16	-
Other tax deductable differences	-	-	90	-	-	90
Total deferred tax asset	**3**	**3**	**356**	**3**	**3**	**90**
Net deferred tax liability comprises						
Capital allowances	(3)	(3)	(4)	(3)	(3)	(4)
Doubtful debt allowance	(0)	(0)	-	(0)	(0)	-
Prepayments made	-	-	-	-	-	-
Section 24 allowance on prepayments received	-	-	-	-	-	-
Other tax deductable differences	(0)	(0)	-	(0)	(0)	-
Contracts assets	-	-	-	-	-	-
Total deferred tax liability	**(3)**	**(3)**	**(4)**	**(3)**	**(3)**	**(4)**

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:

	GROUP 2025 Rm	GROUP 2024 Rm	GROUP 2023 Rm	COMPANY 2025 Rm	COMPANY 2024 Rm	COMPANY 2023 Rm
Deferred tax liability	(3)	(3)	(4)	(4)	(4)	(2)
Deferred tax asset	3	3	356	(4)	(4)	-
Total net deferred tax asset	**-**	**-**	**352**	**(8)**	**(8)**	**(2)**

13. INVENTORIES

	GROUP 2025 Rm	GROUP 2024 Rm	GROUP 2023 Rm	COMPANY 2025 Rm	COMPANY 2024 Rm	COMPANY 2023 Rm
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:						
Consumable inventory	142	134	164	142	133	162
Contracts in progress	-	-	-	-	-	-
Goods in transit	16	8	1	16	7	1
Finished products	250	246	281	250	242	277
Raw materials and bought-out components	1,340	1,344	1,210	1,340	1,344	1,210
Spare parts	16	54	43	-	-	-
Work in progress	506	617	614	494	509	491
Inventory purchased during the financial year	-	-	1	-	-	1
Inventories before accumulated impairment	**2,269**	**2,403**	**2,315**	**2,241**	**2,235**	**2,142**
Accumulated impairment						
Balance at 1 April	(479)	(454)	(395)	(340)	(338)	(282)
Impairment for the year	115	(56)	(41)	(1)	(4)	(62)
Impairment reversal for the year	1	1	2	1	1	3
Inventories after accumulated impairment	**1,906**	**1,895**	**1,880**	**1,901**	**1,894**	**1,801**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

14. INCOME TAX RECEIVABLES

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Income tax receivables	-	-	19	-	-	-
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						
Proft/(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 2025

15. CASH AND CASH EQUIVALENTS

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
CASH AND CASH EQUIVALENTS CONSISTS OF:						
Cash and short-term deposits	782	1,435	3,769	778	1,429	3,764
Bank overdraft	-	(18)	(35)	-	(18)	(21)
	782	**1,417**	**3,734**	**778**	**1,411**	**3,743**
CASH AND CASH EQUIVALENTS CONSISTS OF:						
Cash in bank	78	125	433	73	119	428
Banks	57	45	247	52	39	242
Banks (Foreign currency)	21	80	186	21	80	186
Deposits	-	-	-		-	-
Local call deposits	-	-			-	-
Cash restricted use for use	704	1,310	3,336	704	1,310	3,336
Local banks	704	1,310	3,336	704	1,310	3,336
Current assets	782	1,435	3,770	778	1,429	3,765
Current liabilities	-	(18)	(35)	-	(18)	(21)
	782	**1,417**	**3,735**	**778**	**1,411**	**3,744**

Cash and cash equivalents are as per the consolidated statements of cash flows. The weighted average effective interest rate on call deposits is 5.08% (2023/24: 7.94%, 2022/23: 7.28%). Interest on cash in bank is earned at market rates.

16. CAPITAL AND PREMIUM

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	1,225	1,217	1,225	1,225	1,225
Ordinary Type A	-	-	8	-	-	-
Share premium	13,979	13,979	13,979	13,979	13,979	13,979
	15,204	**15,204**	**15,204**	**15,204**	**15,204**	**15,204**

At year-end, the number of issued Class A ordinary shares were 1 000 000 000 (2023/24: 1 000 000 000, 2022/23: 1 000 000 000) and the number of issued. Class B ordinary shares were 225 129 931 (2023/24: 225 129 931, 2022/23: 225 094 106).

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

17. REVALUATION RESERVE

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
The revaluation reserve is in respect of the transfer of owner occupied propety to investment property.						
Reserves	129	(10)	53	31	31	29
Made of:						
NDR Revaluation Surplus On Property, Plant & Equipment	33	33	30	33	33	30
Actuarial Gains & Losses	138	(1)	24	(1)	(1)	-
NDR Reverse Cash Flow Hedge	(41)	(41)	(1)	-	-	(1)
	129	(10)	53	31	31	29

18. BORROWINGS

Held at amortised cost						
Bank loan	136	-	-	63	-	-
Inter group loans		-	12	42	-	-
Secured loans	46	118	161	46	149	191
Current portion of interest bearing loans and borrowings included under current liabilities	1	2	102	1	2	102
CFC	-	3	3	-	3	3
Escrow		-	-		-	-
	183	**122**	**278**	**152**	**153**	**296**
Weighted average effective interest rates bankturing						
Local unsecured loans (fixed rate)	11%	11%	8%	11%	11%	8%
Current bank borrowings (floating rate)	17%	17%	12%	17%	17%	12%
Subtotal	**28%**	**28%**	**20%**	**28%**	**28%**	**20%**
Summary of maturity of borrowings Maturing						
Within three months	-	-	178	-	-	196
Between three and twelve months	47	122	100	16	153	100
Between one and two years	136	-	-	136	-	-
Subtotal	**183**	**122**	**278**	**152**	**153**	**296**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

19. CONTRACT LIABILITIES

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Opening Balance	1,491	1,431	1,402	1,491	1,405	1,369
Adjustment		(32)	(116)		(32)	(116)
Restated opening balance	1,491	1,399	1,286	1,491	1,373	1,253
IFRS Change	-	(23)	(3)	-	(23)	(3)
Other	(209)	115	149	(209)	141	155
New contracts	-	-	-	-	-	-
Total Contract Liabilities	**1,282**	**1,491**	**1,432**	**1,282**	**1,491**	**1,404**

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	-	-	-	-	-	-
Split between non-current and current portions						
Non-current liabilities	24	24	47	24	24	47
Current liabilities	1,258	1,467	1,385	1,258	1,467	1,357
	1,282	1,491	1,432	1,282	1,491	1,404

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

20. PROVISIONS

	Opening balance	Addition	Unwinding of discount on provisions	Realised	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Reconciliation of provisions - Group - 2025								
Restructuring	28	-	-	-	(25)	-	-	3
Environmental rehabilitation	312	-	67	-	-	(3)	30	406
Onerous contract	40	-	-	-	-	-	6	46
Product warranties	50	-	3	-	(2)	(11)	2	42
Restructuring		-	-	-	-	-	-	-
Counter trade	128	-	-	-	(106)	(4)	-	18
	557	-	70	-	(133)	(18)	38	514

	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
Reconciliation of provisions - Group - 2024								
Restructuring	22	-	-	-	-	-	6	28
Environmental rehabilitation	278	-	-	-	-	-	34	312
Onerous contract	43	-	-	-	-	(3)	-	40
Product warranties	53	-	4	(2)	-	(16)	11	50
Restructuring	1	-	-	-	-	(77)	-	(76)
Counter trade	115	-	-	(0)	-	-	13	128
	512	-	4	(3)	-	(96)	64	481

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

20. PROVISIONS (CONTINUED)

	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
Reconciliation of provisions - Group - 2023								
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

	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
Reconciliation of provisions - Company - 2025								
Restructuring	24	-	-	-	-	-	-	24
Environmental rehabilitation	278	-	67	-	-	-	38	383
Onerous contract	43	-	-	-	-	-	3	46
Product warranties	48	-	3	-	(2)	(2)	2	49
Restructuring	1	-	-	-	-	-	-	1
Counter trade	34	-	-	-	(26)	(4)	-	4
	428	-	70	-	(28)	(6)	43	507

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

20. PROVISIONS (CONTINUED)

	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
Reconciliation of provisions - Company - 2024								
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

	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
Reconciliation of provisions - Company - 2023								
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			(89)	-	28	422

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

20. PROVISIONS (CONTINUED)

	GROUP				COMPANY			
	2025 ZAR	2024 ZAR			2023 ZAR	2025 ZAR	2024 ZAR	2023 ZAR
	Rm	Rm			Rm	Rm	Rm	Rm
Non-current liabilities	405	348			385	403	345	305
Current liabilities	110	139			126	110	136	116
Subtotal	**514**	**487**			**511**	**513**	**481**	**421**
	(0)					6		

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 2025

21. ADVANCE PAYMENTS RECEIVED

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Non-current advance payments received	135	135	136	135	135	136
Current advance payments received	1,828	2,270	2,310	1,748	2,190	2,240
Total advance payments received	**1,963**	**2,406**	**2,446**	**1,883**	**2,325**	**2,376**
The carrying amount of advance payments received expected to be settled as follows:						
Less than three months	-	2	-	0	2	-
Between three and twelve months	1,828	2,268	2,310	1,747	2,188	2,240
Between one and two years	135	135	136	135	135	136
Between two and three years	-	-	-	-	-	-
Between three and five years	-	-	-	-	-	-
More than five years	-	-	-	-	-	-
	1,963	2,406	2,446	1,883	2,325	2,376

43. IRREGULAR EXPENDITURE

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Financial liabilities						
Trade payables	892	648	884	790	588	815
Trade payables: related parties	-	-	59	-	-	19
Sundry personnel associated	129	59	457	115	59	457
Accrued leave pay	63	65	78	60	58	65
Accrued bonus	5	5	6	5	5	6
Trade accruals	-	68	22	-	49	12
Sundry accruals	191	193	934	189	187	847
Accrued audit fees		12	10		5	3
Deposits received		5	8		5	8
Operating lease smoothing due rent paid		5	5		5	5
Prior Period error		-	(57)		-	32
Non-financial instruments		-			-	
Amounts due to customers for work invoiced not yet performed	123	123	123	123	123	123
VAT	10	36	67	10	36	67
	1,413	1,219	2,596	1,293	1,121	2,459
Financial instrument and non-financial instrument components of trade and other payables						
At amortised cost	1,280	1,060	2,463	1,159	962	2,237
Non-financial instruments	133	159	190	133	165	190
	1,413	1,219	2,653	1,293	1,127	2,427

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	**1,413**	**1,219**	**2,463**	**1,293**	**1,127**	**2,237**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

23. NON-CURRENT ASSETS HELD FOR SALE

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm

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 investements are still in the process to be disposed off.

In 2024 a subisquent decision was taken not to sell Gear Ratio, Hensoldt and RDM.

	GROUP			COMPANY		
Assets and liabilities	2025	2024	2023	2025	2024	2023
Non-current assets held for sale	Rm	Rm	Rm	Rm	Rm	Rm
Property, plant and equipment	-	-	40	-	-	-
Investment in Associates - Hensold	-	-	253	-	-	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	-	-	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 2025

23. NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Revenue from contracts with customers						
Sale of goods	1,144	1,108	887	1,144	1,146	1,265
Interest on revenue	-	49	408	-		
Rendering of services	128	168	-	128	168	-
	1,272	1,325	1,295	1,272	1,314	1,265
Revenue other than from contracts with customers						
Rental Income			170			170
Total Revenue	1,272	1,325	1,465	1,272	1,314	1,435
Prior period error	-	-	(276)			(276)
Restated balance	1,272	1,325	1,189	1,272	1,314	1,159
Revenue from contracts with customers						
At a point in time	987	628	711	987	628	681
Over time	285	697	478	285	686	478
	1,272	1,325	1,189	1,272	1,314	1,159

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	1,209	1,782	1,571	1,209	1,782	1,571
1 - 2 Years	928	1,411	1,163	928	1,411	1,163
2 - 3 Years	1,423	1,251	923	1,423	1,251	923
3 - 4 Years	1,148	620	551	1,148	620	551
	4,709	5,064	4,208	4,709	5,064	4,208

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

24. REVENUE

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.

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: Aeronautics and Denel Overberg Test Range. The products includes aviation services and the test range services.

> Guided Weapons includes Integrated System Solutions (ISS). The products include the design, develpment and manufacture of missiles and preciscion guided weapons.

> Land Solutions: Denel Land Systems, Denel Vehicle Systems (Pty) Ltd (The design, manufacture and intergrator of vehicle solutions) and Pretoria Metal Pressings (Manufacture and design of ammunition).

> Munitions: Pretoria Metal Pressings. Manufacture and design of ammunition.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	Landwards Solutions	Guided Weapons	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group - 2025							
Segment revenue	693	-	471	121	-	-	1,285
Revenue from external customers	692	-	460	119	-	-	1,271
Intergroup revenue	1	-	11	2	-	-	14
Contribution	54%	0%	37%	9%	0%	0%	100%
Segment operating profit/(loss)	148	-	(273)	(103)	-	(17)	(245)
Net finance income/(costs)	(7)	-	(42)	(23)	-	7	(65)
Share of profit in associated companies	-	-	-	-	-	125	125
Income tax expense	-	-	-0	-	-	-	-0
Net (loss)/profit for the year	**140**	**-**	**(315)**	**(125)**	**-**	**115**	**(185)**
Segment assets	534	-	2,872	452	-	(6,970)	-3,112
Deferred tax assets	-	-	-	-	-	3	3
Total assets	**534**	**-**	**2,872**	**452**	**-**	**(6,967)**	**(3,109)**
Segment liabilities	254	-	5,630	932	-	(3,010)	3,806
Deferred tax liabilities	-	-	-	-	-	(3)	(3)
Total liabilities	**254**	**-**	**5,630**	**932**	**-**	**(3,013)**	**3,803**
Capital expenditure	-	-	0	-	-	-	0
Impairment losses raised/(reversed)	-	-	6	-	-	-	6
Depreciation/amortisation i.r.o.segment assets	7	-	11	5	-	-	23
Significant non-cash items	-	-	-	-	-	-	-
Fair value adjustment	-	-	(0)	-	-	-	(0)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	Landwards Solutions	Guided Weapons	Non-core	Consolidation entries	Total
	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%	17%	0%	0%	100%
Segment operating profit/(loss)	134	-	(355)	(67)	(139)	(17)	(444)
Net finance income/(costs)	(11)	-	(326)	(16)	194	7	(152)
Share of profit in associated companies	-	-	-	-	-	125	125
Income tax expense	-	-	-	-	-	-	-
Net (loss)/profit for the year	**123**	**-**	**(681)**	**(84)**	**55**	**115**	**(471)**
Segment assets	663	-	3,415	602	10,080	(6,970)	7,789
Deferred tax assets	-	-	-	-	-	3	3
Total assets	**663**	**-**	**3,415**	**602**	**10,080**	**(6,967)**	**7,792**
Segment liabilities	445	-	5,984	1,063	1,523	(3,010)	6,004
Deferred tax liabilities	-	-	-	-	-	(3)	(3)
Total liabilities	**445**	**-**	**5,984**	**1,063**	**1,523**	**(3,013)**	**6,001**
Capital expenditure	-	-	0	-	-	-	0
Impairment losses raised/(reversed)	2	-	6	13	-	-	21
Depreciation/amortisation i.r.o.segment assets	13	-	12	6	1	-	33
Significant non-cash items	-	-	(216)	-	-	-	(216)
Fair value adjustment	-	-	(4)	-	-	-	(4)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	Landwards Solutions	Guided Weapons	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group - 2023							
Reported as:							
Segment revenue	402	407	323	124	275	-63	1,468
Revenue from external customers	351	405	318	124	264	-	1462
Intergroup revenue	51	2	5	-	11	-63	6
Contribution	24%	28%	22%	8%	18%	0%	100%
Segment operating profit/(loss)	-48	9	-370	-164	869	-2	294
Net finance income/(costs)	-54	13	-328	-27	-57	3	-450
Share of profit in associated companies	-	-	-	-	-	74	74
Income tax expense	-		-9	-	-	-2	-12
Net (loss)/profit for the year	-102	21	-707	-191	812	73	-94
Segment assets	928	866	2,638	434	11,069	-5,662	10,273
Deferred tax assets	-	1	272	-	78	-	351
Total assets	**928**	**867**	**2,910**	**434**	**11,147**	**-5,662**	**10,624**
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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	Landwards Solutions	Guided Weapons	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Segment revenue	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 2025

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	Landwards Solutions	Guided Weapons	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Restated							
Segment revenue	402	406	323	124		-67	1187
Revenue from external customers	351	404	318	124	-12	-4	1181
Intergroup revenue	51	2	5	-	11	-63	6
Contribution	24%	28%	22%	8%	18%	0%	100%
Segment operating profit/(loss)	64	9	-370	-164	593	455	587
Net finance income/(costs)	-55	13	-328	-27	-53	18.00	-432.00
Share of profit in associated companies	-	-	-	-	-	74	74
Income tax expense	-		-9	-	-	-2	-12
Net (loss)/profit for the year	**9**	**21**	**-707**	**-191**	**540**	**545**	**217**
Segment assets	928	819	2,638	434	11,069	-5,571	10,317
Deferred tax assets	-	1	272	-	78	-	351
Total assets	**928**	**820**	**2,910**	**434**	**11,147**	**-5,571**	**10,668**
Segment liabilities	1,683	2.00	6,076	604	2,097	-2,860	7,602
Deferred tax liabilities	-	-	-	-	-	4	4
Total liabilities	**1,683**	**2**	**6,076**	**604**	**2,097**	**-2,856**	**7,606**
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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

25. ADVANCE PAYMENTS MADE

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Current	221	158	213	218	156	232
Non-current	-	-	-		-	-
	221	158	213	218	156	232

26. COST OF SALES

Sale of goods	1137	985	1,286	1127	970	1,282
Prior Period Error		-	-288		-	-284
Restated	**1,137**	**985**	**998**	**1,127**	**970**	**998**
Manufactured goods:						
Raw materials consumed	554	490	-	551	475	-
Employee costs	488	435	-	481	435	-
Manufacturing expenses	95	60	-	95	60	-
	1,137	985	998	1,127	970	998

27. OTHER OPERATING INCOME

Administration and management fees received	2	-	2	2	-	1
Royalties	1	2	1	1	2	-
Rent Income (prior period error)	180	146	274	180	147	276
Dividends received	-	-	-	98	-	-
Fair value adjustment on investment properties	-	66	1	-	66	-
Net gains/(losses) on financial instruments	-	60	-	-	60	-
Grants received	1	-	7	1	-	7
Other income	-	13	1,152	-	11	1,152
			-			-
	184	286	1,437	282	285	1,436

28. OTHER OPERATING GAINS (LOSSES)

Gains (losses) on disposals, scrappings and settlements						
Property, plant and equipment	-	-	-	-	-	-
	-	-	-	-	-	-
Foreign exchange gains (losses)	-	-	-	-	-	-
Net foreign exchange loss	23	60	(42)	23	60	(42)
Total other operating gains (losses)	23	60	(42)	23	60	(42)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

29. OPERATING PROFIT (LOSS)

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:						
Audit fees						
Auditor's remuneration - external	24	57	10	24	51	10
Remuneration, other than to employees						
Administrative and managerial services	-	0	2	-	0	2
Consulting and professional services	15	39	46	15	39	46
	15	39	48	15	39	48
Employee costs						
Salaries, wages, bonuses and other benefits	412	454	443	399	395	359
Leases						
Variable lease payments	-	23	10	-	23	10
Short-term leases	-	2	0	-	1	0
Leases of low value assets	-	0	0	-		0
	-	25	10	-	24	10
Less: Lease charges included in cost of merchandise sold and inventories	-	-	-	-	-	-
Total lease expenses	**-**	**25**	**10**	**-**	**24**	**10**
Depreciation and amortisation						
Depreciation of property, plant and equipment	21	18	16	16	13	10
Depreciation of right-of-use assets	2	2	2	2	2	2
Amortisation of intangible assets	2	4	4	2	4	2
Total depreciation and amortisation	**25**	**24**	**22**	**20**	**19**	**14**
Impairment losses						
Depreciation of property, plant and equipment	-		-	-		-
Investments in subsidiaries, joint arrangements and associates	-	11	0	-	411	0
Impairment non-interest bearing receivables	-		-4	-		-4
	-	11	(4)	-	411	(4)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

30. INVESTMENT INCOME

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Investments in financial assets:						
Bank and other cash	86	164	-	86	163	-
Other financial assets	122	3	23	122	2	23
Total interest income	**208**	**166**	**23**	**208**	**166**	**23**

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.

31. FINANCE COSTS

Lease liabilities	-	-	-	-	-	-
Current borrowings	21	53	2	21	53	-
Other	-	3	-	-	-	-
Unwinding of discount on provisions and other liabilities	7	39	32	7	39	32
Finance cost on significant finance component	16	213	223	16	213	223
Finance costs on financial liabilities	13	10	193	13	6	194
Total finance costs	**56**	**318**	**450**	**56**	**311**	**449**

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

32. TAXATION

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Major components of the tax expense (income)						
Current						
Local income tax - current period		-	1	-	-	1
Tax expense		-	-	-	-	-
Current tax (impairment of the current tax receivable)		18	1	-	-	1
	-	18	2	-	-	2
Deferred						
Local income tax - current period	-	-	10	-	-	2
Current tax	-	-	-	-	-	-
	-	18	12	-	-	4
Reconciliation of the tax expense						
Reconciliation between applicable tax rate and average effective tax rate.						
Applicable tax rate	**28%**	**28%**	**28%**	**28%**	**28%**	**28%**

33. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

	GROUP 2025 Rm	GROUP 2024 Rm	GROUP 2023 Rm	COMPANY 2025 Rm	COMPANY 2024 Rm	COMPANY 2023 Rm
Depreciation						
Property, plant and equipment	21	17	16	16	12	10
Right-of-use assets	2	2	2	2	2	2
	22	**18**	**18**	**18**	**13**	**12**
Amortisation						
Intangible assets	2	4	4	2	-	2
	2	**4**	**4**	**2**	**-**	**2**
Impairment						
Financial Instruments	-	11	-	-	411	-
Investments in subsidiaries, joint arrangements and associates	-	-	-	-	-	-
Impairment non-interest bearing receivables	-	-	4	-	-	4
Others	-	0	-	-	0	-
	-	**12**	**4**	**-**	**411**	**4**
Total depreciation, amortisation and impairment						
Depreciation	22	18	18	18	13	12
Amortisation	2	4	4	2	-	2
Impairment losses	-	12	-4	-	411	-4
	25	**34**	**18**	**20**	**424**	**10**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

34. CASH GENERATED FROM/(USED IN) OPERATIONS

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Loss before taxation	223	(471)	(56)	223	(895)	(88)
Adjustments for:						
Depreciation, amortisation, impairments and reversals of impairments	80	23	149	80	23	59
Gains on exchange differences	-	-	-	-	-	-
Fair value adjustments	(442)	(66)	(44)	(442)	(66)	(44)
Impairment raised/reversed	-	-	51	-	-	79
Disposal of PPE	-	-	(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)	-	(60)	-
Profit on derecognition of investment	-		-	-		-
Foreign gains and losses	-	115	(60)	-	-	(59)
Adjust for items which are presented separately:	-			-		
Interest income	(208)	(166)	(23)	(208)	(166)	(23)
Finance costs	56	152	450	56	152	449
Changes in working capital:	(558)	(1,753)	(64)	(558)	(1,932)	39
(Increase) decrease in inventories	(41)	(67)	(517)	(41)	(67)	(517)
(Increase) decrease in trade and other receivables	1	(57)	337	1	(57)	144
(Increase) decrease in prepayments	-	(40)	(82)	-	(40)	(86)
(Increase) decrease in contract assets	(45)	-	(353)	(45)		(353)
Increase (decrease) in trade and other payables	(194)	(1,376)	185	(194)	(1,376)	469
Increase (decrease) in contract liabilities	(216)	89	343	(216)	(89)	351
Loan receivable	(92)	(277)	-	(92)	(277)	(168)
Movement in provisions	28	(25)	23	28	(25)	199
						-
	(849)	(2,227)	356	(849)	(2,945)	410

35. TAX (PAID) REFUNDED

Balance at beginning of the year	-	-	-	-	-	-
Current tax recognised in profit or loss	-	-	-2	-	-	-2
Balance at end of the year	-	-	-	-	-	-
Total finance costs	-	-	(2)	-	-	(2)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

36. CONTINGENT LIABILITIES

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Advance payment guarantees	1,510	1,982	2,431	1,510	1,982	2,431
Guarantees to banks for credit facilities of subsidiaries	-	-	4,000	-	-	4,000
Guarantees to local authorities	1	1	4	1	1	4
Participating guarantees	-	-	-	-	-	-
Performance guarantees	217	227	598	217	227	598
Other guarantees	135	139	133	135	139	133
Total of guarantees issued	1,863	2,348	7,166	1,863	2,348	7,166
Guarantees issued on behalf of associated companies	-	(61)	(4,057)	-	(61)	(4,057)
Advance payment guarantees	-	(18)	(17)	-	(18)	(17)
Guarantees to banks for credit facilities of subsidiaries	-	-	(4,000)	-	-	(4,000)
Performance guarantees	-	(43)	(40)	-	(43)	(40)
Other guarantees	-	(1)	-	-	(1)	-
	1,863	2,287	3,109	1,863	2,287	3,109

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 2024/25 R452m (2023/24 R348m, 2022/23: R348m). 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 2024/25: 15% (2023/24: 15%, 2022/23: 15%,) of the estimated cost as recommended by the consultants was not included in determining the site restoration provision. The contingency would have been to cover risks arising from the unknown depth of contamination and the volume of the material to be cleaned up. After an initial clean up, the site will be tested for explosive ordinates to assess whether there should be any further clean-up, which may impact the provision. Had the contingency been included, the provision would have been increased by 2024/25: R41.6m (2023/24: R41.6m, 2022/23: 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

36. CONTINGENT LIABILITIES (CONTINUED)

The table below summarises the group's countertrade position.

	2025			2024			2023		
	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Countertrade obligation									
Total countertrade obligation	6	-	6	29	-	29	7,151	9,332	16,483
Obligation discharged	-		-	-		-	(6,332)	(2,459)	(8,791)
Obligation discharged	6	-	6	29	-	29	819	6,873	7,692
To be settled by third party	-	-	-	-	-	-	-	(4,437)	(4,437)
Net obligation of the group	6	-	6	29	-	29	819	2,436	3,255
Penalties									
Maximum penalty for noncompliance	7	-	7	14	-	14	13	342	355
Third party obligation			-			-	-	(222)	(222)
Net group exposure	7	-	7	14	-	14	13	120	133
Guarantees issued									
Group issued	13	-	13	43	-	43	56	114	170
Third party guarantees	-	-	-	-	-	-	27	-	27
Provision to settle obligation	13	-	13	43	-	43	83	114	197

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

37. RELATED PARTIES

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
GROUP								
2025								
Advance payments made	20	-	-	-	-	-	-	-
Advance payments received	5	-	-	-	-	28	1,555	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	-	1,417	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties	-	4,000	-	59	-	-	-	-
on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	173	-	-	-	-	-	0	-
Interest received	210	-	-	-	-	-	0	-
Lease payments	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	576	5	-	10	-	1	375	1
Outstanding balances receivable	3,004	-	-	36	-	176	102	-
Penalties paid	-	-	-	-	-	-	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Provision for penalties received	-	-	-	-	-	-	3	-
Purchases of goods	73	-	-	-	-	-	20	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	492	-	-	12	-	73	225	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	-	-	-	-	-	1	26	-
Services rendered	0	-	-	-	-	124	-	-
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	-	-	-	-	-	-	-	-
	4,553	4,005	-	118	-	402	3,721	1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

37. RELATED PARTIES (CONTINUED)

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
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	-	4,000	-	61	-	-	-	-
on behalf of related parties	-	-	-	-	-	-	-	-
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 2025

37. RELATED PARTIES (CONTINUED)

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
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 2025

37. RELATED PARTIES (CONTINUED)

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY								
2025								
Advance payments made	20	-	-	-	-	-	-	-
Advance payments received	5	-	-	-	-	28	1,555	-
Allowance of doubtful debts	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	-	1,417	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties	-	4,000	-	59	-	-	-	-
on behalf of related parties	-	-	-	-	-	-	-	-
Interest paid	173	-	-	-	-	-	0	-
Interest received	210	-	-	-	-	-	0	-
Lease payments	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Outstanding balances payable	576	5	-	10	-	1	375	1
Outstanding balances receivable	3,004	-	-	36	-	176	102	-
Penalties paid	-	-	-	-	-	-	-	-
Penalties received	-	-	-	-	-	-	-	-
Provision for penalties paid	-	-	-	-	-	-	-	-
Provision for penalties received	-	-	-	-	-	-	3	-
Purchases of goods	73	-	-	-	-	-	20	-
Purchases of properties and other assets	-	-	-	-	-	-	-	-
Sales of goods	492	-	-	12	-	73	225	-
Sales of properties and other assets	-	-	-	-	-	-	-	-
Services received	-	-	-	-	-	1	26	-
Services rendered	0	-	-	-	-	124	-	-
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	-	-	-	-	-	-	-	-
	4,553	4,005	-	118	-	402	3,721	1

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

37. RELATED PARTIES (CONTINUED)

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY								
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	-	4,000	-	61	-	-	-	-
on behalf of related parties	-	-	-	-	-	-	-	-
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 2025

37. RELATED PARTIES (CONTINUED)

	Denel SOC Ltd and subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY								
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	-	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 2025

38. DIRECTORS EMOLUMENTS

								2025	2024	2023
	Salaries	Pension fund contribution	Medical aid contribution	Other	Company contribution	Short-term incentive	Lump sum	Total	Total	Total
	R'000								R'000	R'000
Amounts paid/accrued to executives of the group										
Executive directors										
Mr M Kgobe 2									3,173	1,842
MS T Sabela 3								491	1,986	1,938
Mr OT Monaheng 4	3,580	323		35				3,938	522	-
Mr ML Mukwevho	2,087	199	112	24				2,423	3,100	3,143
Sub-total	**5,667**	**523**	**112**	**60**	-	-	-	**6,853**	**8,780**	**6,923**

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 GCFO 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								962	962	962
Mr TH Magazi								694	704	422
Lt Gen. (rtd) TT Matanzima								430	472	256
Mr MM Mnisi								564	594	309
Ms AMSS Mokgabudi								623	618	442
Ms MMT Ramano								264	245	156
Sub-total	-	-	-	-	-	-	-	**3,537**	**3,595**	**2,547**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS

	GROUP			COMPANY		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
	Rm	Rm	Rm	Rm	Rm	Rm

IAS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. When an IFRS Standard or IFRS Interpretation specifically applies to a transaction, other event or condition, an entity must apply that Standard.

In the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgement management refers to the following sources in descending order:

> the requirements and guidance in IFRS Standards dealing with similar and related issues; and
> the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

Changes in an accounting policy are applied retrospectively unless this is impracticable or unless another IFRS Standard sets specific transitional provisions.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in:
> the period of the change, if the change affects that period only; or
> the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, available reliable information. Unless it is impracticable to determine the effects of the error, an entity corrects material prior period errors retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Nature of prior period errors

* In 2022/2023 there was investment properties classified as a non-current asset held for sale which no longer met the requires, this was corrected in 2024 as a prior perriod error and reclassified to investment properties.

^ In 2022/2023 the investment in associate (Hensoldt) was classified as non-current assets held for sale after the 2022/2023 year end, the Minister of finance declined the proposal to dispose off the investment in Hensoldt. As such this became an adjusting event after the reporting period. This was however not adjusted in the 2022/2023 financial statements and was corrected in the 2024 financial statements as a prior period error.

& The rental income in Denel Corporate Office was classified as sales in the previous years, the was a finding from the auditors that required the sales to be classified as other income. This was correceted in the 2023/2024 financial statements as a prior perriod error

^ The associates of Denel SOC have a 31 December financial year, which results in a 3 months difference in the calculations of the share of profit/loss of associate. This has been corrected in 2023/2024 financial year as a prior period error.

$ The were differences between the group excel pack financial statements and the caseware financial statements. Errors were made in kepturing the financial information from excel pack to caseware, these have been corrected as prior perior errors.

The right of use asset and the corresponding lease liability were corrected as prior period errors in the 023/2024 financial statements resulting from the correct application of IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	GROUP			COMPANY		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
2023						
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Non-current assets	2,505	751	3,256	1,341	692	2,033
Property, plant and equipment	616	-	616	496		496
Right-of-use assets	114	-	114	114		114
Investment properties *	246	692	938	246	692	938
Intangible assets	54	-	54	24		24
Investments in subsidiaries and divisions	-	-	-	-	-	-
Investments in associated companies ^	1,119	59	1,178	371	-	371
Loan receivable	-	-	-			-
Advance payments made	-	-	-			-
Deferred tax assets	356	-	356	90		90
Current Assets	7,074	(90)	6,984	7,060	(2)	7,058
Inventories	1,880	-	1,880	1,801	-	1,801
Loan receivable	-	-	-	168	-	168
Trade and other receivables $	601	(91)	510	514	(3)	511
Contract assets	590	0	590	579	0	579
Advance payments made	213	-	213	232	-	232
Post retirement medical aid	1	-	1	1	-	1
Cash and short-term deposits	3,770	-	3,770	3,765		3,765
Income tax receivables	19	-	19	-		-
Non current assets held for sale and assets of disposal groups ^*	1,010	(933)	77	749	(692)	57
Total assets	10,589	(272)	10,317	9,150	(2)	9,148
EQUITY AND LIABILITIES						
Equity	2,955	(237)	2,718	1,962	(49)	1,913
Share capital	15,204	-	15,204	15,204	-	15,204
Reserves	53	-	53	29	-	29
Accumulated loss	(12,302)	(237)	(12,539)	(13,271)	(49)	(13,320)
Liabilities						
Non-current liabilities	573	-	573	493	-	493
Loans and borrowings			-	-		-
Deferred income	136	-	136	136	-	136
Provisions	386		386	306		306
Deferred tax liabilities	4	-	4	4	-	4
Contract liabilities	47	-	47	47	-	47
Post retirement medical aid			-			-
Lease Liability			-			-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	GROUP			COMPANY		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
Current liabilities	7,014	(34)	6,980	6,691	48	6,739
Amounts payable on contracts			-			-
Trade and other payables $	2,653	(57)	2,596	2,427	32	2,459
Contract liabilities $	1,390	(5)	1,385	1,363	(5)	1,358
Loans and borrowings	278	-	278	296	-	296
Other financial liabilities			-		-	-
Advance payments received	2,310	-	2,310	2,240	-	2,240
Current tax payable		-	-		-	-
Provisions $	106	20	126	102	14	116
Preference dividends payable			-		-	-
Bank overdraft	35	-	35	21	-	21
Post retirement medical aid			-		-	-
Lease Liability #	242	9	251	242	9	251
Liabilities directly associated with assets held for sale	48	-	48	-	-	-
Total liabilities	7,635	(34)	7,601	7,184	48	7,232
Total equity and liabilities	10,590	(271)	10,319	9,146	(0)	9,146
			(2)	4	(2)	2
2023						
STATEMENT OF COMPREHENSIVE INCOME						
Revenue &	1,469	(280)	1,189	1,435	(276)	1,159
Cost of sales &	(1,286)	288	(998)	(1,282)	284	(998)
Other income &	1,163	274	1,437	1,160	276	1,436
Other operating gains	(42)	-	(42)	(42)	-	(42)
Operarting expenses &	(1,007)	(317)	(1,324)	(933)	(315)	(1,248)
Investment income	23	-	23	23	-	23
Finance costs $	(450)	(3)	(453)	(449)	(3)	(452)
Share of profit/(loss) in associate companies ^	74	(94)	(20)	-		-
Taxation	(12)	-	(12)	(4)	-	(4)
Share of other comprehensive income of investments in associates	(24)	-	(24)	-	-	-
	(92)	(132)	(224)	(92)	(33)	(125)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	GROUP			COMPANY		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
2022						
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Non-current assets	2,987	41	3,028	1,843	136	1,979
Property, plant and equipment	649	-	649	519	-	519
Right-of-use assets #	23	128	151	23	128	151
Investment properties	898	-	898	898		898
Intangible assets	62	-	62	32		32
Investments in subsidiaries and divisions	-		-	-	8	8
Investments in associated companies ^	1,109	(87)	1,022	371	-	371
Loan receivable			-			-
Advance payments made			-			-
Deferred tax assets	246	-	246	-	-	-
			-			-
Current Assets	3,646	(58)	3,588	3,350	(2)	3,348
Inventories	1,434	2	1,436	1,366	-	1,366
Loan receivable	-			-		
Trade and other receivables $	981	(60)	921	767	(2)	765
Contract assets	558	0	558	547	0	547
Advance payments made	152	-	152	167	-	167
Post retirement medical aid	1	-	1	1	-	1
Cash and short-term deposits	507	-	507	502	-	502
Income tax receivables	13	-	13	-	-	-
Non current assets held for sale and assets of disposal groups	201		201	56		56
Total assets	6,834	(17)	6,817	5,249	134	5,383
EQUITY AND LIABILITIES						
Equity	(809)	23	(786)	(1,738)	111	(1,627)
Share capital	11,621	-	11,621	11,621	-	11,621
Reserves	77	-	77	29	-	29
Accumulated loss	(12,507)	23	(12,484)	(13,388)	111	(13,277)
Liabilities						
Non-current liabilities	2,619	-	2,619	2,537	-	2,537
Loans and borrowings	100	-	100	100	-	100
Deferred income	2,085	-	2,085	2,085	-	2,085
Provisions	390	-	390	308	-	308
Deferred tax liabilities	2	-	2	2	-	2
Contract liabilities	42	-	42	42	-	42
Post retirement medical aid	-	-	-	-	-	-
Lease Liability	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	GROUP			COMPANY		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
Current liabilities	5,024	(38)	4,986	4,450	24	4,474
Amounts payable on contracts			-			-
Trade and other payables $	2,470	(33)	2,437	2,011	2	2,013
Contract liabilities $	1,361	(5)	1,356	1,327	(5)	1,322
Loans and borrowings	346	-	346	346	27	373
Other financial liabilities			-			-
Advance payments received	487	-	487	410	-	410
Current tax payable		-	-		-	-
Provisions	161	-	161	157	-	157
Preference dividends payable	-	-	-	-	-	-
Bank overdraft	19	-	19	19	-	19
Post retirement medical aid			-			-
Lease Liability	180	-	180	180	-	180
Liabilities directly associated with assets held for sale	-		-			-
Total liabilities	7,643	(38)	7,605	6,987	24	7,011
Total equity and liabilities	6,834	(16)	6,818	5,249	134	5,383
	-		(1)	-		-
	-	(1)	(1)	-	-	-
2022						
STATEMENT OF COMPREHENSIVE INCOME						
Revenue &	1,387	(250)	1,137	1,320	(250)	1,070
Cost of sales &	(1,400)	234	(1,166)	(1,350)	234	(1,116)
Other income &	129	245	374	137	245	382
Other operating gains	(38)	-	(38)	(38)	-	(38)
Operarting expenses &	(819)	(236)	(1,055)	(633)	(230)	(863)
Investment income $	12	2	14	10	1	11
Finance costs $	(377)	3	(374)	(381)	6	(375)
Share of profit/(loss) in associate companies ^	86	(26)	60	-		-
Taxation	34	-	34	-	-	-
Share of other comprehensive income of investments in associates	(64)	-	(64)	-	-	-
	(1,050)	(28)	(1,078)	(935)	6	(929)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non core	Consolidation Entries	Total
GROUP '2022/23								
REPORTED								
2. SEGMENT REVENUE								
Segment revenue	-	402	407	323	124	276	(63)	1,469
Segment operating profit/(loss)		(48)	9	(370)	(164)	869	(2)	294
Net finance income/(cost)		(54)	13	(328)	(27)	(57)	3	(450)
Net (loss)/profit for the year		(102)	21	(707)	(191)	812	73	(94)
Segment assets		928	866	2,638	434	11,069	(5,662)	10,273
Segment liabilities		1,683	-	6,076	596	2,097	(2,866)	7,586
Capital expenditure		16	-	-	-	2	-	18
Impairment losses raised/(reversed)		14	10	29	2	-	-	55
PRIOR PERIOD ADJUSTMENT								
Segment revenue		-		-	-	(276)	(4)	(281)
Segment operating profit/(loss)		112	-	-	-	(276)	457	293
Net finance income/(cost)			-	-	-	4	15	18
Net (loss)/profit for the year		-	-	-	-	(1,000)	896	(104)
Segment assets		(90)	(19)	-	-	-	(6,264)	(6,373)
Segment liabilities		-	-	-	-	-	-	-
Capital expenditure		16	-	-	-	2	-	18
Impairment losses raised/(reversed)		14	10	29	2	-	-	55
RESTATED								
Segment revenue	-	402	406	323	124	(0)	(67)	1,188
Segment operating profit/(loss)		64	9	(370)	(164)	593	455	587
Net finance income/(cost)		(55)	13	(328)	(27)	(53)	18	(432)
Net (loss)/profit for the year		(102)	21	(707)	(191)	(188)	969	(198)
Segment assets		838	847	2,638	434	11,069	(11,926)	3,900
Segment liabilities		1,683	-	6,076	596	2,097	(2,866)	7,586
Capital expenditure		32	-	-	-	4	-	36
Impairment losses raised/(reversed)		28	20	58	4	-	-	110

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

39. PRIOR PERIOD ERRORS (CONTINUED)

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non core	Consolidation Entries	Total
GROUP '2021/22								
REPORTED								
Segment revenue		141	417	425	216	245	(57)	1,387
Segment operating profit/(loss)	-	(228)	(58)	(295)	(93)	(87)	16	(744)
Net profit/(loss) for the year		(240)	(54)	(457)	(105)	(122)	(12)	(990)
Segment assets		888	781	2,124	472	2,067	196	6,528
Segment liabilities		1,551	350	4,798	442	937	(472)	7,606
PRIO RPERIOD ADJUSTMENT								
Segment revenue		-	0	-	-	(245)	(5)	(250)
Segment operating profit/(loss)		-	0	-	-	11	3	14
Net profit/(loss) for the year		1	0	1	-	(11)	3	(5)
Segment assets							(145)	(145)
Segment liabilities			(5)				(33)	(38)
RESTATED								
Segment revenue	-	141	417	425	216	-	(62)	1,137
Segment operating profit/(loss)		(228)	(58)	(295)	(93)	(76)	19	(730)
Net profit/(loss) for the year		(239)	(54)	(456)	(105)	(133)	(9)	(995)
Segment assets		888	781	2,124	472	2,067	51	6,383
Segment liabilities		1,551	345	4,798	442	937	(505)	7,568

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

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 at least 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.

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).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

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 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2025			2024			2023		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
GROUP									
Trade receivables (note 9)	**128**	**82**	**210**	**193**	**140**	**333**	**178**	**6**	**184**
Government and related entitles	41	-	41	151	24	176	175	4	179
Non-government entities	87	82	169	42	116	158	3	2	5
Other receivables (note 9)	**169**	**59**	**228**	**120**	**41**	**161**	**374**	**-**	**374**
Government and related entitles	145	-	145	108	-	108	349	-	349
Non-government entities	24	59	83	12	41	53	25	-	25
Interest receivable (note 9)	**3**	**-**	**3**	**6**	**-**	**6**	**2**	**-**	**2**
Government and related entitles	-	-	-	-	-	-	2	-	2
Non-government entities	3	-	3	6	-	6	0	-	0
Loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Government and related entitles	-	-	-	-	-	-			-
Non-government entities	-	-	-	-	-	-			-
Cash and short-term deposits (note 15)	**780**	**3**	**783**	**1,417**	**6**	**1,423**	**3,582**	**186**	**3,768**
Government and related entitles	29	-	29	285	-	285	50	6	56
Non-government entities	751	3	754	1,132	6	1,139	3,532	180	3,712
	1,080	144	1,224	1,736	188	1,923	4,136	192	4,328

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2025			2024			2023		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY									
Trade receivables (note 9)	**95**	**82**	**177**	**193**	**140**	**333**	**178**	**6**	**184**
Government and related entitles	41	-	41	151	24	176	175	4	179
Non-government entities	54	82	136	42	116	158	3	2	5
Other receivables (note 9)	**169**	**59**	**228**	**120**	**41**	**161**	**374**	**-**	**374**
Government and related entitles	145	-	145	108	-	108	349	-	349
Non-government entities	24	59	83	12	41	53	25	-	25
Interest receivable (note 9)	**3**	**-**	**3**	**6**	**-**	**6**	**2**	**-**	**2**
Government and related entitles	-	-	-	-	-	-	2	-	2
Non-government entities	3	-	3	6	-	6	0	-	0
Loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Government and related entitles	-	-	-	-	-	-			-
Non-government entities	-	-	-	-	-	-			-
Cash and short-term deposits (note 15)	**775**	**3**	**778**	**1,417**	**6**	**1,423**	**3,578**	**186**	**3,764**
Government and related entitles	29	-	29	285	-	285	45	6	52
Non-government entities	746	3	749	1,132	6	1,139	3,532	180	3,712
	1,042	**144**	**1,186**	**1,736**	**188**	**1,923**	**4,132**	**192**	**4,324**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND 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:

	2025				2024				2023			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
GROUP												
Trade receivables (note 9)	241	-	(31)	210	323	-	(19)	304	38	5	(5)	38
Not past due	22	-	-	22	148	-	-	148	13	-	-	13
Less than 30 days	45	-	-	45	36	-	-	36	10	-	-	10
30 to 60 days	(5)	-	-	(5)	25	-	-	25	2	-	-	2
61 to 90 days	56	-	-	56	37	-	-	37	-	-	-	-
More than 90 days	123	-	(31)	92	77	-	(19)	58	13	5	(5)	13
Other receivables (note 9)	228	-	-	228	115	-	-	115	2,112	363	(363)	2,111
Not past due	30	-	-	30	74	-	-	74	2,109	363	(363)	2,109
Less than 30 days	150	-	-	150	11	-	-	11	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	48	-	-	48	30	-	-	30	3	-	-	3
Interest receivables (note 9)	3	-	-	3	6	-	-	6	-	-	-	-
Not past due	3	-	-	3	6	-	-	6				-
Less than 30 days	-	-	-	-	-	-	-	-				-
30 to 60 days	-	-	-	-	-	-	-	-				-
61 to 90 days	-	-	-	-	-	-	-	-				-
More than 90 days	-	-	-	-	-	-	-	-				-
Cash and short-term deposits (note 15)	782	-	-	782	967	-	-	967	3,375	-	-	3,375
Not past due	601	-	-	601	964	-	-	964	3,375	-	-	3,375
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	180	-	-	180	4	-	-	4	-	-	-	-
	1,254	-	(31)	1,223	1,411	-	(19)	1,392	5,525	368	(368)	5,525

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

40.1 CREDIT RISK (CONTINUED)

	2025				2024				2023			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY												
Trade receivables (note 9)	208	-	(31)	177	323	-	(19)	304	38	5	(5)	38
Not past due	22	-	-	22	148	-	-	148	13	-	-	13
Less than 30 days	45	-	-	45	36	-	-	36	10	-	-	10
30 to 60 days	(38)	-	-	(38)	25	-	-	25	2	-	-	2
61 to 90 days	56	-	-	56	37	-	-	37	-	-	-	-
More than 90 days	123	-	(31)	92	77	-	(19)	58	13	5	(5)	13
Other receivables (note 9)	228	-	-	228	115	-	-	115	2,112	363	(363)	2,111
Not past due	30	-	-	30	74	-	-	74	2,109	363	(363)	2,109
Less than 30 days	150	-	-	150	11	-	-	11	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	48	-	-	48	30	-	-	30	3	-	-	3
Interest receivables (note 9)	3	-	-	3	6	-	-	6	1	-	-	1
Not past due	3	-	-	3	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 (note 15)	777	-	-	777	967	-	-	967	3,375	-	-	3,375
Not past due	601	-	-	601	964	-	-	964	3,375	-	-	3,375
Less than 30 days	-	-	-	-	-	-	-	-	-	-	-	-
30 to 60 days	-	-	-	-	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-	-	-	-	-	-	-
More than 90 days	175	-	-	175	4	-	-	4	-	-	-	-
	1,216	-	(31)	1,185	1,411	-	(19)	1,392	5,526	368	(368)	5,526

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

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 R4.4m and these expired 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						
2025						
Interest bearing loans and borrowings (note 18)	66	66	66	-	117	-
Trade and other payablesn (note 22)	1,414	1,414	105	868	440	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees (note 36)	1,863	1,863	-	-	1,842	21
	3,343	3,343	171	868	2,400	21
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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R'm	R'm	R'm	R'm	R'm	R'm
COMPANY						
2025						
Interest bearing loans and borrowings (note 18)	66	66	66	-	117	-
Trade and other payablesn (note 22)	1,414	1,414	105	868	440	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees (note 36)	1,863	1,863	-	-	1,842	21
	3,343	3,343	171	868	2,400	21
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

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 2025

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 quartely 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 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm
Interest rate risk						
Fixed rate instruments						
Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	46	17	-	46	17	-
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-
Loans and borrowings	-	-	-	-	-	-
Loans and other receivables	2	38	-	2	38	-
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 datewould not affect profit and loss.

Variable rate instruments						
Bank overdraft	-	18	-	-	18	-
Cash and short-term deposits	723	1,407	3,375	723	1,407	3,375
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	-	100	-	-	100
Loans and borrowings	66	119	296	66	119	296
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.	986	962	3,375	986	962	3,375

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	Rm	Rm	Rm	Rm	Rm	Rm

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 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	USD			EUR		
	2025	2024	2023	2025	2024	2023
Currency risk						
GROUP						
Assets	4	45	12	49	20	2
Trade receivables	4	45	12	36	20	2
Controlled foreign currency accounts (CFC)	-	-	-	13	-	-
Firm Commitment (export revenue)	-	-	-	-	-	-
Liabilities	(47)	(41)	-	-	(1)	(4)
Trade payables	(47)	(41)			(1)	(4)
Firm Commitment(import)	-		-	-	-	
Gross balance sheet exposure	(43)	4	12	49	19	(2)
Forecast transcations (revenue)	-	-	-	-	-	-
Forecast transcations (purchases)	-	-	-	-	-	-
Gross balance sheet exposure	(43)	4	12	49	19	(2)
Forward exchange contracts						
Export revenue	-	-	-	-	-	-
Import	-	-	-	-	-	-
Net exposure	(43)	4	12	49	19	(2)
COMPANY						
Assets	4	45	12	49	20	2
Trade receivables	4	45	12	36	20	2
Controlled foreign currency accounts (CFC)	-			13		
Firm Commitment (export revenue)	-			-		
Liabilities	(47)	(41)	-	-	(1)	(4)
Trade payables	(47)	(41)		-	(1)	(4)
Firm Commitment(import)	-			-		
Gross balance sheet exposure	(43)	4	12	49	19	(2)
Forecast transcations (revenue)	-			-		
Forecast transcations (purchases)	-			-		
Gross balance sheet exposure	(43)	4	12	49	19	(2)
Forward exchange contracts						
Export revenue	-			-		
Import	-			-		
Net exposure	(43)	4	12	49	19	(2)

Strenghthening 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 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

40.5 Fair value of financial assets and liabilities

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

GROUP

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit and loss Rm	Carrying amount Rm	Fair value Rm
2025					
Financial assets					
Cash and cash equivalents	-	-	778	778	778
Financial assets					
Loans and receivables	-	-	-	-	-
Other financial assets (refer note 19.1)	-	-	1	1	1
Trade and other receivables (refer note 17)	-	-	502	502	502
	-	-	1,281	1,281	1,281
Financial liabilities					
Associated companies: Loans	-	-	-	-	-
Loans and borrowings	-	(136)	(47)	(183)	(47)
Other financial liabilities	-	-	-	-	-
Trade and other payables (refer note 26)	-	-	(1,413)	(1,413)	(1,413)
Preference dividends	-	-	-	-	-
	-	(136)	(1,460)	(1,596)	(1,460)
Net financial assets/(liabilities)	**-**	**(136)**	**(179)**	**(315)**	**(179)**
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**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
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
COMPANY					
2025					
Financial assets					
Cash and cash equivalents	-	-	778	778	778
Financial assets					
Loans and receivables	-	-	-	-	-
Other financial assets (refer note 19.1)	-	-	1	1	1
Trade and other receivables (refer note 17)	-	-	502	502	502
	-	-	1,281	1,281	1,281
Financial liabilities					
Associated companies: Loans	-	-	-	-	-
Loans and borrowings	-	(136)	(47)	(183)	(47)
Other financial liabilities	-	-	-	-	-
Trade and other payables (refer note 26)	-	-	(1,293)	(1,276)	(1,276)
Preference dividends	-	-	-	-	-
	-	(136)	(1,340)	(1,459)	(1,323)
Net financial assets/(liabilities)	-	(136)	(59)	(178)	(42)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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.

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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.

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 Derivative financial liabilities	Market comparison technique*. The fair value of foreign currency contracts is marked-to-market by comparing the contracted forward rate to the present value of the current forward rate of an equivalent contract with the same maturity date.	Forward exchange contracted rates, market foreign exchange rate, 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			
Derivative financial liabilities	Refer derivative financial assets in this table.	Refer derivative financial assets in this table.	Level 2
Loans and borrowings	Refer note 1.4.4.	Refer note 1.4.4.	Level 2
Trade and other payables	Refer note 1.4.4.*	Refer note 1.4.4.*	Level 2

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

41. GOING CONCERN

1. PURPOSE

The Denel SOC Ltd group and company annual financial statements for the year ended 31 March 2025 have been prepared on a going concern basis. Under the going concern basis of accounting, annual financial statements are prepared on the general assumption that the entity will continue its operations for the foreseeable future. The use of the going concern basis indicates that the accounting authority has no intention to liquidate or to cease operations.

The purpose of this representation is to provide the external auditors with the directors' view of Denel's solvency, liquidity, funding requirements and commercial viability. This provides reasons for the applicability of the going concern assumption in preparing the financial statements for the year ended 31 March 2025.

2. BACKGROUND

In line with IAS 1 and ISA 570, management is required to assess whether the company is expected to continue operating in 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 Denel'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.

3. SOLVENCY AND LIQUIDITY

3.1 Solvency

The total equity of the group remains positive and increased from R1 772m at 31 March 2024 to R1 997m at 31 March 2025. The increase in equity is mainly due to the share of associate companies' profits posted for the 2024/25 financial year.

The forecast solvency position over the next few years is as follows:

3.1.1 Shareholders' equity

Item R'm	2025/26	2026/27	2027/28
Solvency (Rm) opening balance	1 997	1 822	1 777
Net profit / (loss)	-175	-45	92
Solvency forecast (Rm)	1 822	1 777	1 869

The debt ratio of the group for FY2024/5 is 0.74, which is better that the 0.78 reported for FY2023/4. This is mainly due to lower debt as the organisation continues to reduce its debt burden.

The company will remain solvent over the next three years based on the recent corporate plan covering the period FY2025/6 through to FY2027/8.

41. GOING CONCERN (CONTINUED)

3.2 Liquidity test

Operations are funded mainly through the cash generated from operations and the recapitalisation for the growth aspects of the business.

The directors have reviewed the budgets and cash flow forecasts (Annexure 1) for the next 12 months, as well as the current liquidity position of the group. 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 continues to pursue long outstanding receivables on Project Hoefyster. The project is subject to negotiations between the client, Denel and the shareholder.

3.1.2 Current ratio

In March 2025, the group's current assets remained flat at 0.90 of the group's current liabilities from March 2024 (0.80 in the 2026 budget). A current ratio of 1.2 to 2 is generally considered a healthy range. Denel SOC is below this range which indicates that Denel might struggle to meet its short-term obligations as they become due. This will be addressed during the cycle by entering into target repayment terms for certain contracts. In some instances, contracts will include working capital assistance in addition to standard advance payments.

3.1.3 Quick ratio

In March 2025 the quick ratio was 0.49 (0.54 in the 2024 and 0.48 in the 2026 budget). This is a 9% decline from March 2024. A quick ratio of 1:1 is considered normal. The group's quick ratio indicates that Denel SOC cannot currently fully pay its current liabilities as they become due. Management will focus on reducing the cash cycle on certain projects. Also, the budget for FY2025/6 is premised on actual contracts, whereas the strategy includes pursuing service and spares contracts which have quicker turnaround times.

3.1.4 Cash ratio

In March 2025 the cash ratio was 0.17 (0.27 in the 2024 and 0.15 in the 2026 budget). This is a 37% decline from March 2024. Denel SOC does not have sufficient cash and cash equivalents to pay off its short-term liabilities. This will be addressed during the cycle by entering into target repayment terms for certain contracts. In some instances, contracts will include working capital assistance in addition to standard advance payments.

3.1.5 Net working capital

In March 2025 the net-working capital was -0.06 (-0.07 in the 2024 and -0.14 in the 2026 budget). This is a 14% improvement from March 2024.

Management is 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.

Strategies to mitigate the liquidity risks

- Hoefyster inventories (R1,0 billion) recovered from the client or alternative use explored;
- Improvement in execution to translate contract assets to invoiceable milestones and reduce contract liabilities and prepayments received; and
- Reduction in prepayment to suppliers to improve cashflows.

41. GOING CONCERN (CONTINUED)

4. DEBT COVENANTS

Denel's liabilities are mainly composed of trade payables, contract liabilities and advance payments received. These are not subject to normal debt covenants.

Denel has entered into settlement agreements with ABSA (Hoefyster Guarantee which was recalled on 30 September 2024), Nedbank (various facilities) and RMB (General banking facility) to repay debt owed in a structured manner over the next 12 to 18 months. The repayments of these facilities are in line with the agreements. Denel has not defaulted on the repayment of these agreements.

5. EXTERNAL FACTORS THAT ARE MATERIAL TO DENEL'S GOING CONCERN STATUS

Local 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 local and foreign orders and contracts. The opportunity pipeline is in excess of R53 billion and includes a range of high and low value, high or low probability, and short to long timelines. 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.

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 assurance of the ability to be operational in the next 12 months.

Denel is busy establishing new transactional banking relationships with two local banks. International banks in South Africa and the middle east have reacted positively to Denel's application for advance payment guarantee and performance bond.

The current geopolitics and impact on Denel: South Africa: South Africa, as non-aligned state, pursues an independent foreign policy, engaging with various countries and international organisations while maintaining its sovereignty. Denel has a competitive advantage in that, pursuant to national interests it is able to freely interact with potential customers. Denel is viewed as a sovereign asset and strategic partner to the Department of Defence. Additionally, Nations looking to strengthen their defence capabilities are looking up to Denel to supply equipment and upgrades to current capabilities. Denel has positive support from the Shareholder and the Minister representing the Shareholder.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

41. GOING CONCERN (CONTINUED)

6. INTERNAL FACTORS THAT ARE MATERIAL TO DENEL'S GOING CONCERN STATUS

6.1 Renewed focus on operational excellence

Denel has posted net profit in FY2024/25, and expecting to return to sustainable operational profits by FY2025/26. The key focus is on operation improvements across the operations for an example the plant renewal project at PMP supported by the set aside of funds.

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. Focus on operational excellence include closer management of project deliverables and timelines.

6.2 Progress on turnaround plan

In 2025/26 Denel is forecasting to increase its revenue to R2.0 billion, a growth of about 26% from the 2024/25 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. Revenue is expected to grow to R3.0 billion by the end of the 2027/28 financial year and an operating profit margin of 10% will be achieved.

The 3-year corporate plan indicates that the cash generated from operations will 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. This will enable Denel's ambition to diversify revenue to 60% exports revenue.

Denel has 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 first major order (Middle East Client G6 Upgrades) worth more than R2 billion 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.

Projects	Timelines	Estimated Amounts for FY 2025/26	Contract Value still to be executed
		R'm	R'm
Aerospace – PSS contract	Mar-26	546	1 500
Guided Weapons Armscor (A- Darter)	Mar-26	51	400
Guided Weapons - Spaceteq	Mar-26	72	200
Landward – Support contracts (UAE)	Mar-26	343	527
Landwards – G6 Upgrade (Oman)	Mar-26	73	1 800

There are various projects milestone timelines in the year, the above is indicative of the revenue to be recognised within FY2025/26. The contract value is multi-year in respect to execution.

41. GOING CONCERN (CONTINUED)

6.3 Critical Skills and vacancies

Denel has filled the critical strategic vacancies during the course of FY2024/25 evidenced by a fully capacitated executive structure. Denel's current headcount of 1 600 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.

6.4 Repairs and maintenance

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. CONCLUSION

The Board and Denel management are confident that Denel group is able to operate as a going concern despite some of the uncertainties alluded to above.

The directors considered specifically the following:

- The solvency and liquidity position of the group as at 31 March 2025;
- The availability of sufficient funds, to meet the group's requirements over the next 12 months;
- The forecasted shareholder's equity for the foreseeable future will remain positive;
- The positive business results projected over the next three years and risks identified in the business plan underpinned by the confirmed order book;
- The shareholder continues to view Denel as a strategic and sovereign asset; and
- Denel has the support of the Shareholder and the Minister representing the Shareholder.

42. EVENTS AFTER THE REPORTING PERIOD

Resignation of Denel Board Chairperson

Mrs Gloria Serobe resigned as Denel Board member and Chairperson of the Board in June 2025. In accordance with Denel's Memorandum of Incorporation, the Board designated Ms Tshidi Mokgabudi as the acting chairperson of the Board until such time that a new chairperson of the Board is appointed by the Shareholder. This resulted in changes in the board subcommittees.

Changes in Shareholder Representative

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 were completed by 31 March 2025. The effect of this was that Denel SOC Ltd's shareholder representative is the Department of Defence and Military Veterans from 01 April 2025.

Project Hoefyster

The Armaments Acquisition Council (AAC) convened a meeting on the 10 July 2025 where a decision and guidance was provided on the way forward on Project Hoefyster. The council concluded that the requirement for the New Generation Infantry Combat Vehicle Product System is still valid and is aligned with the strategic capability enhancement objectives of the SANDF and in light of the substantial investment already committed towards fulfilling this operational need, the project is to proceed with the completion of Phase 1 Development and Phase 2 Industrialization and Production. A memorandum of agreement (MOA) has since been signed by both parties stipulating the agreed terms and condition for finalization of Project Hoefyster.

Legal Matters

- On the 28 July 2025 the high court issued summons lodged by The Auditor General of South Africa against Denel SOC Limited on non-payment of outstanding audit fees.
- On the 30 September 2025 the high court issued summons lodged by The Auditor General of South Africa against Denel Dynamics, a division of Denel SOC Limited on non-payment of outstanding audit fees.
- Aerospace, a division of Denel SOC Limited received summons from a client based in USA alleging non-delivery of product.
- The legal matter between Imextech (Pty) Ltd and Denel Vehicle Systems (Pty) Ltd, a subsidiary of Denel SOC Limited which was scheduled for a high court hearing in September 2025 was settled before the hearing.
- The legal action by a former employee of Denel Dynamics, a division of Denel SOC Limited for alleged employment discrimination regarding the Group Executive :Dynamics position was heard in the high court. Judgement is pending.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

43. IRREGULAR EXPENDITURE

	GROUP			COMPANY		
	2025	2024	2023	2025	2024	2023
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
Irregular Expenditure	53	18	28	53	18	28
Fruitless and wasteful expenditure	-	-	-	-	-	-
Closing balance	**53**	**18**	**28**	**53**	**18**	**28**
(1) Amounts of material losses through criminal conduct	-	-	-	-	-	-
(2) Criminal or disciplinary steps taken as a result of losses, irregular and fruitless and wasteful expenditure						
x cases completed and officials disciplined	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2025

44. FRUITLESS AND WASTERFUL EXPENDITURE

	GROUP			COMPANY		
	2025 ZAR	2024 ZAR	2023 ZAR	2025 ZAR	2024 ZAR	2023 ZAR
	m	m	m	m	m	m
Opening balance Prior period error	1	3	-	1	3	-
As restated	3	3	-	3	3	-
Fruitless and wasteful expenditure - relating to prior year	-	-	-	-	-	-
Fruitless and wasteful	-	1	-	-	1	-
expenditure - relating to current year	-	-	-	-	-	-
Less: Amount resolved	-	-	-	-	-	-
Less: Amounts transferred to receivables for recovery	-	-	-	-	-	-
Fruitless and wasteful expenditure awaiting resolution	4	6	-	4	6	-
Analysis of current year's fruitless and wasteful expenditure						
Incident						
Interest and penalties charged	1	-	-	1	-	-
Penalties on late deliveries and late payments	1	1	-	1	1	-
Regulatory and Statutory Compliance	-	-	-	-	-	-
Other*	-	-	-	-	-	-
Fruitless and wasteful expenditure awaiting resolution	2	1	-	2	1	-

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

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
Armscor	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 Organisa-tions of the Treadway Commission
COVID-19	Corona Virus Disease 2019
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CSH	Combat support helicopter
CSR	Corporate Social Responsibility
DD	Denel Dynamics
DDG	Deputy Director-General
Dekra	German Motor Vehicle Inspections Association
Denel Asia	Denel Asia LLC
Denel OTR	Denel Overberg Test Range
DG	Director-General
DHET	Department of Higher Education and Training
DIRCO	Department of International Relations and Cooperation
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DPE	Department of Public Enterprises

ACRONYM	FULL DESCRIPTION
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
IIRC	International Integrated Reporting Council
IP	Intellectual Property
IR	Integrated Reporting
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information Technology
Ko	Kilogram
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016

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

ACRONYM	FULL DESCRIPTION
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
SOP	Schools Outreach Programme
STEM	Science, Technology, Engineering and Mathematics
t	tons
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UN	United Nations
USA	United States of America
USD	United States Dollar
VAT	Value-added tax
VSP	Voluntary Severage Package

CORPORATE CONTACT DETAILS

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Registration number: 1992/001337/30

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NOTES

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