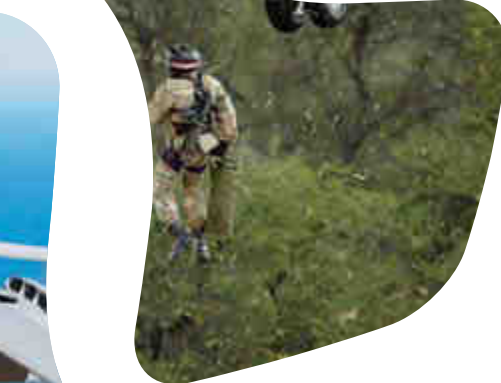




2021/22

ANNUAL REPORT



A GLOBAL DEFENCE TECHNOLOGY COMPANY

TWENTY 21/22

ANNUAL REPORT

ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations, and its ability to create value for the period 1 April 2021 to 31 March 2022. 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 43.

Non-financial information

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

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

REPORT CONTENT

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

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

APPROVAL OF THE REPORT

The Denel Board, supported by the Audit and Risk Committee, has taken overall responsibility and accountability for this report. The Board believes that this report is a balanced and appropriate presentation of the profile and performance of Denel. The Board approved this report on page 40.



Mrs Gloria Tomatoe Serobe
Chairperson of the Board Denel SOC



Ms T Mokgabudi
Chairman of the Audit and Risk Committee



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SECTION 1

WHO WE ARE

DENEL VALUES

KEY PILLARS OF OUR VISION



Business centred on Clients and Markets



Transformed engaged and talented Team/ People



Focused Cash- and Profit Generating Growth



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



Attractive and innovative fit-for purpose Product/Service offering



Strong relationship with Partners and Stakeholders

DENEL VALUES



PERFORMANCE

We embrace operational excellence



INTEGRITY

We are honest, truthful and ethical



INNOVATION

We create sustainable, innovative solutions



CARING

We care for our people, customers, nations and environment



ACCOUNTABILITY

We take responsibility for our actions



Denel SOC Ltd - A World Class Defence Technology Company

VISION

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

PURPOSE

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

ONE DENEL. ONE VISION. ONE PURPOSE!

Our business divisions are as follows:

DENEL AERONAUTICS

Denel Aeronautics incorporates the Denel Technical Academy (DTA). Denel Aeronautics delivers end-to-end-aeronautical solutions including aircraft, engine and component maintenance, repair and overhaul services (MRO), aircraft system upgrades. Denel Aeronautics is the original equipment manufacturer (OEM) of the Rooivalk combat support helicopter, as well as the design authority for both the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft.



DENEL DYNAMICS

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



DENEL LAND SYSTEMS

Denel Land Systems (DLS) is a leading project-based, consolidated systems designer, and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. It is also a sub-system supplier for artillery, rapid-fire medium-calibre weapons, and combat vehicle systems.



DENEL VEHICLE SYSTEMS

Denel Vehicle Systems (DVS) is a subsidiary of Denel SOC Ltd, which provides turnkey vehicle systems to military and police customers in South Africa and in selected export markets. DVS has three divisions, i.e., OMC, Gear Ratio and Mechatronics. DVS has close relationships with the SANDF, especially the SA Army, Armscor and the SAPS, as well as with the NIMR and IGG companies in the UAE, and several other local and international customers, suppliers and collaborators.



DENEL OVERBERG TEST RANGE

Denel Overberg Test Range is a versatile test range specialising in in-flight systems performance measurements for the local and international defence and aerospace industries. Its spectrum of services range from tests of short-range guided munitions for land, sea and air combat, to the evaluation of modern standoff weapons and aviation systems.



DENEL PRETORIA METAL PRESSINGS

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





CHAIRPERSON'S REPORT

Despite a difficult year in Denel's business there is still confidence among the shareholder, the Board, and management that the company will retain its position as a vital cog in the broader national efforts to safeguard the sovereignty of South Africa and protect the lives and interests of its citizens.

Government demonstrated its confidence in the long-term financial viability of Denel through its injection of R3,4bn into the company. This will help to stabilise the company as it implements the turnaround plan following the sharp downturn in its finances.

It will reduce the company's dependence on the fiscus and strengthen its position in local and international markets. This was a critical step in the rebuilding of Denel. It will also unleash new energy among employees and create an optimism about the envisioned future of Denel.

The company is now proceeding with the streamlining of its business and establish a platform for Denel to access new revenue streams and grow its order pipeline.

CORE VALUES

As a company our values continue to guide our activities as we navigate through the current short-term challenges.

- We commit ourselves to integrity. We strive to be an honest, truthful and ethical company which can continue to be a key player in a very important sector of the economy.
- We remain focused on performance and strive for high levels of excellence in every aspect of our business.
- We are accountable. We take ownership for our actions and do not escape responsibility for our behaviour.
- We continue to care for our people, customers, communities, nations and the environment.

CORPORATE GOVERNANCE

The board has concluded the appointment of the GCEO and is in the process to finalise the executive structure in order to ensure stability in the business. The Board is also working together with senior management to retain core skills and capabilities and attract new talent.

The Board is convinced that we will find sustainable solutions for our current challenges and confident that a new and transformed Denel will survive and return to profitability. To achieve this, we continue to work closely with our shareholders, partners and the broader defence industry.

Our mandate is to repair the reputation of Denel, restore the highest standards of corporate governance and act decisively against all forms of corruption, malfeasance and irregular practices within the organisation. We continue to work together with investigators who are implementing the findings of the Zondo Commission of Inquiry into state capture.

TURNAROUND STRATEGY

The implementation of the turnaround strategy continues to deliver tangible results. Already we have exited onerous contracts, reduced the overdue payments to creditors and instituted legal proceeding to recover money lost as a result of state capture and bad governance.

We will continue to explore opportunities for strategic equity partnerships with defence and technology companies both within South Africa and globally. This will broaden our access to markets and enable Denel to enhance sustainable revenue.

Denel remains a company that adds immense strategic value to South Africa. It needs to survive and grow to enable the country to meet its targets for industrialisation, investment in technology and participation in the knowledge economy.

FUTURE PERSPECTIVE

Denel does not shy away from the reality that it will require far-reaching steps to bring the company back to sustainability. Our future success will be highly dependent on the quality of leadership within the organisation, especially at divisional levels and our ability to mobilise support among our work force.

A well-governed and revitalised Denel will play a catalytic role in a future South African economy which will be characterised by game-changing leaps in innovation and technology.

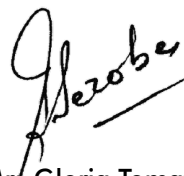
APPRECIATION

The Board is grateful for the continued strategic guidance that we received from our Shareholder representative, the Minister of Public Enterprises and his senior management. The Minister of Defence and Military Veterans, Armscor and National Treasury have been champions of the defence industry in general and Denel in particular.

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

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

The Board is confident that the implementation of the turnaround plan will lead to the restoration of good and effective governance and strengthens Denel's position as a strategic national asset.



Mrs Gloria Tomatoe Serobe
Chairperson of the Board
Denel SOC Ltd

BOARD OF DIRECTORS

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



MRS GLORIA TOMATOE SEROBE (62)
(Acting Chairperson)

Bachelor of Commerce Degree and MBA

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

Appointed as Denel Acting Chairperson on 25 February 2021

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

VALUE ADD TO THE BOARD: Finance and business leadership



MR THAMSANQA HAROLD MAGAZI (64)

Bachelor of Science in Business Administration, MBA

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 09 April 2018

DENEL BOARD COMMITTEE

MEMBERSHIPS: Chairperson of the Personnel Remuneration and Transformation, 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, Brighthorse Investments, Reatisa Smart Technologies, Avo Mac Enterprises (Pty) Ltd and Reata Aviation Services (Pty) Ltd

VALUE ADD TO THE BOARD: Business Strategy Development and Implementation, Operations and Sales Leadership



LIEUTENANT GENERAL (RETIRED)

TEMBA TEMPLETON MATANZIMA (69)

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

DENEL BOARD COMMITTEE

MEMBERSHIPS: 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 (41)**

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

DENEL BOARD COMMITTEE

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

DIRECTORSHIPS: Director: MNS Attorneys

VALUE ADD TO THE BOARD: Legal, Corporate Governance and Business Leadership

**MS AUDREY MATSHIDISO SHALANG SELOMAGAE MOKGABUDI (67)**

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 25 June 2021

DENEL BOARD COMMITTEE

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

DIRECTORSHIPS: Notes of Nature Wellness, Truworths International, Adcorp Holdings

VALUE ADD TO THE BOARD: Financial and accounting specialist

**MS MMAKEAYA MAGORO TRYPHOSA RAMANO (50)**

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

EXECUTIVE COMMITTEE AND KEY SENIOR PERSONNEL



MR KHOHLONG WILLIAM HLAKOANE (49)

GROUP CHIEF OPERATIONS OFFICER
Mechanical Engineer with an MBA from the Milpark Business School.

ACTING GROUP CHIEF EXECUTIVE OFFICER and EX-OFFICIO DIRECTOR

Appointed Acting Group Chief Executive Officer 21 February 2021

DENEL BOARD COMMITTEE

MEMBERSHIPS: Invitee to Board Committees

DIRECTORSHIP: Non-executive director of RDM

RELEVANT SKILLS, EXPERTISE AND

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



MS THANDEKA NOSIPHO SABELA (41)

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

ACTING GROUP CHIEF FINANCIAL OFFICER and EX-OFFICIO DIRECTOR:

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

DENEL BOARD COMMITTEE

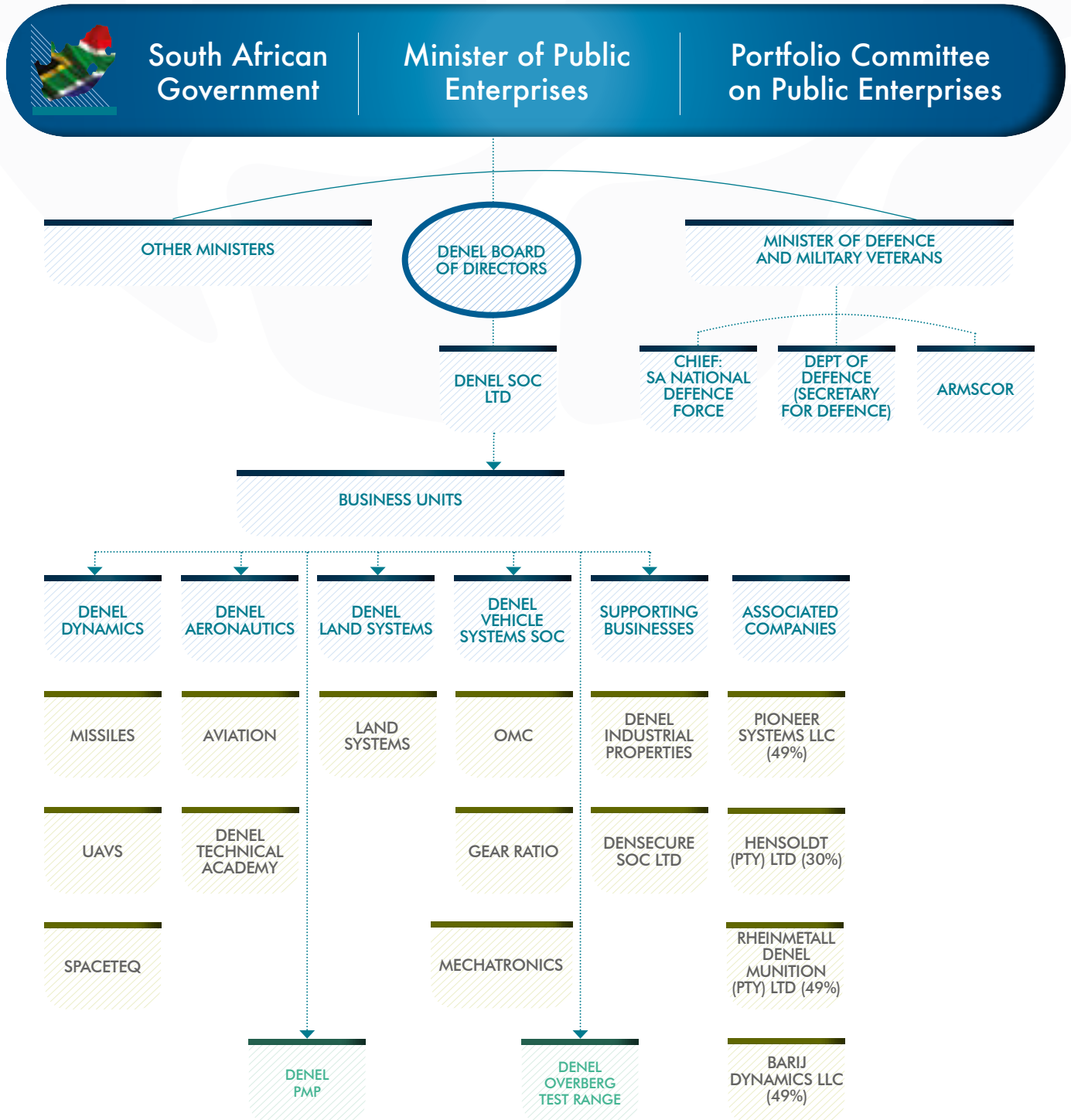
MEMBERSHIPS: Invitee to the Board Committees

DIRECTORSHIPS: Denel Aerostructures

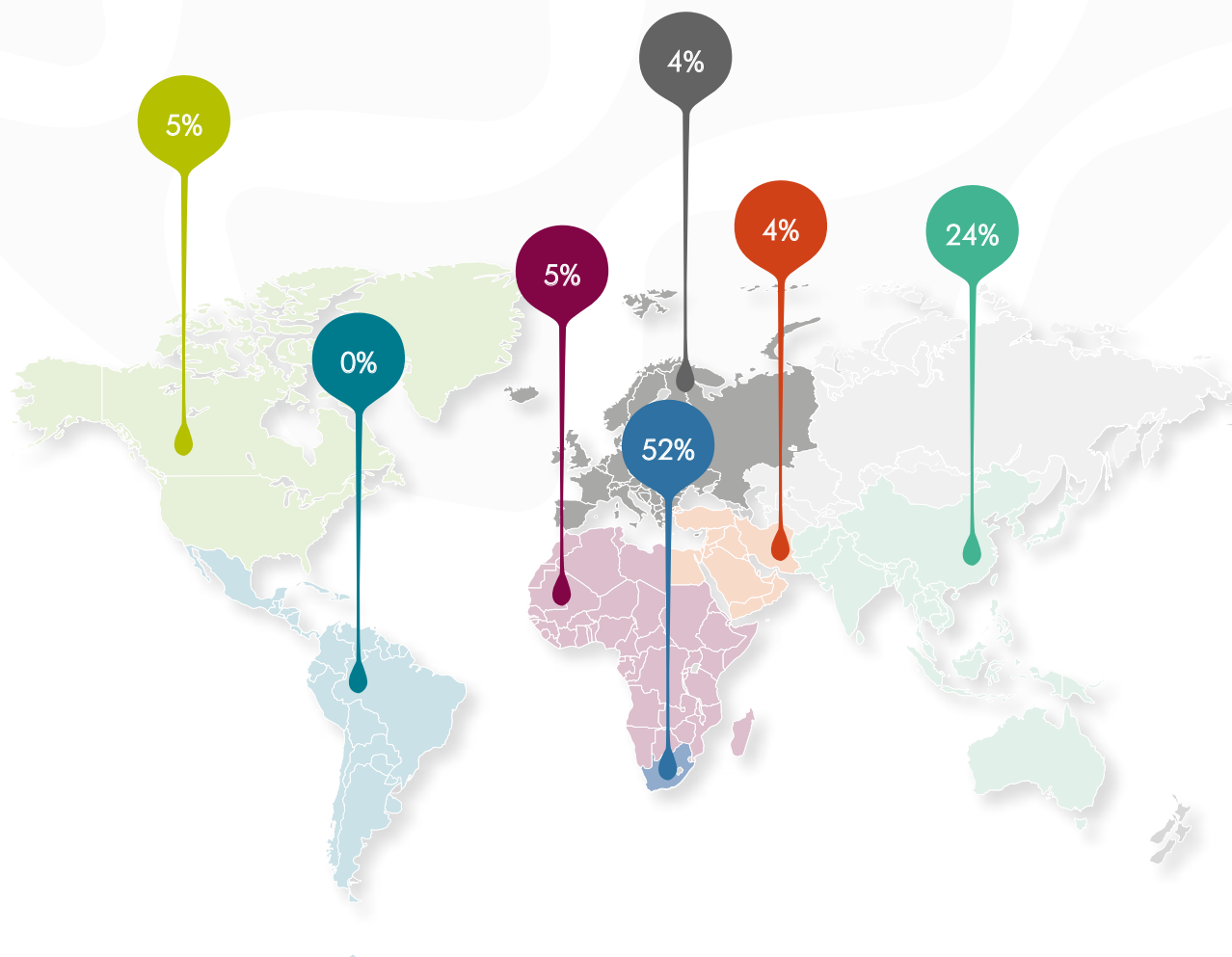
RELEVANT SKILLS, EXPERTISE

AND EXPERIENCE: Finance in the manufacturing and projects management sectors, corporate governance and strategy formulation.

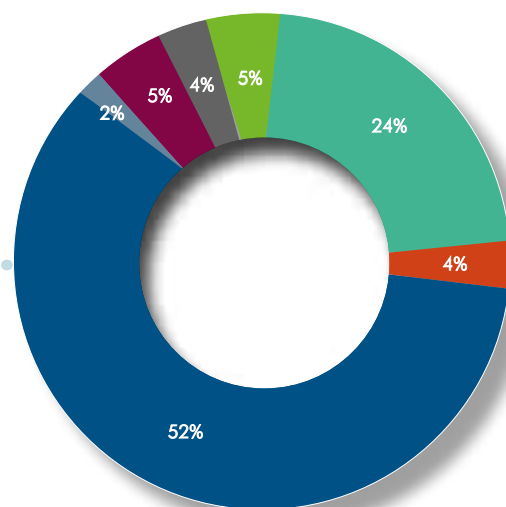
ORGANISATIONAL STRUCTURE

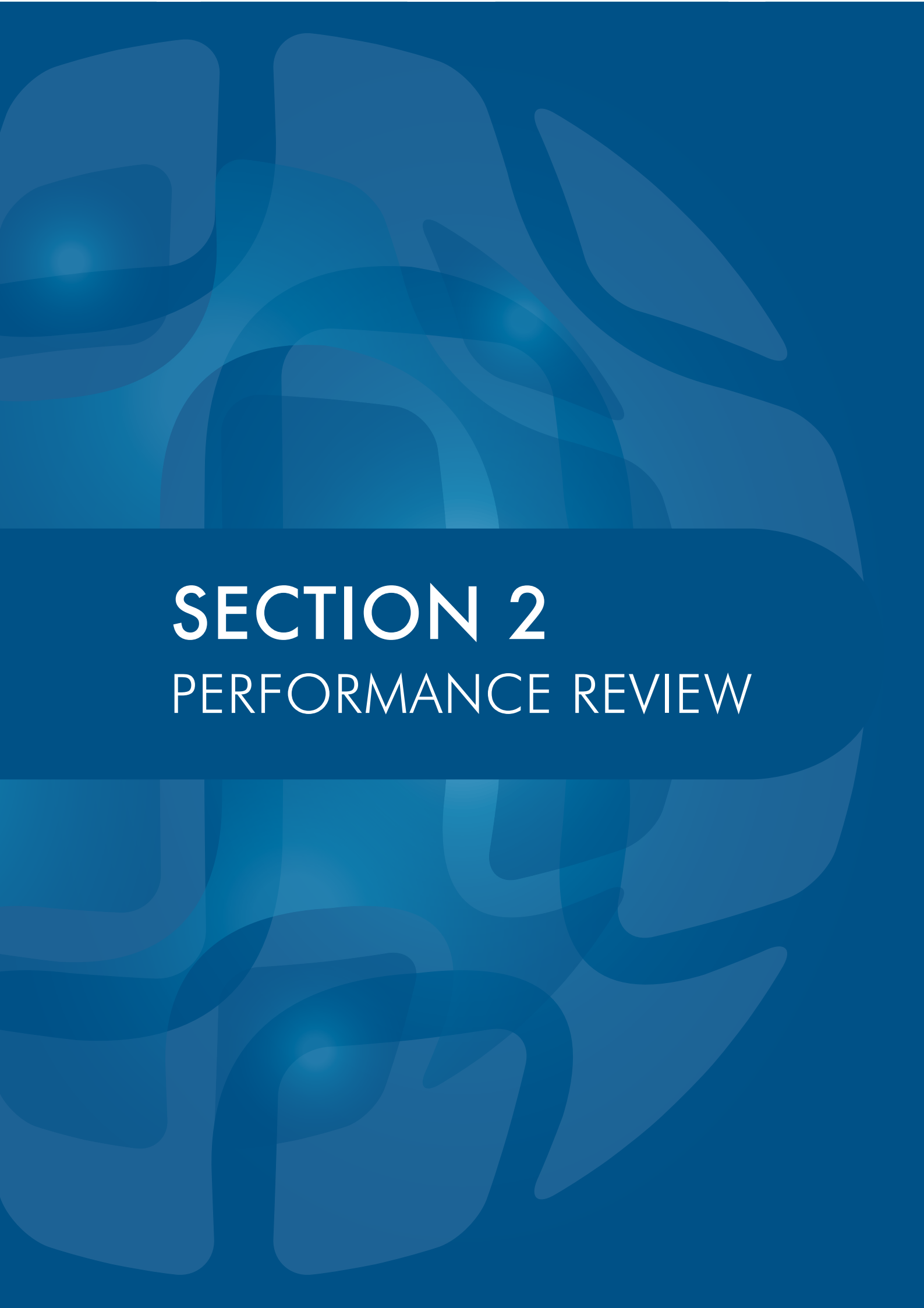


OUR GLOBAL PRESENCE



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



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SECTION 2

PERFORMANCE REVIEW





CEO'S REPORT

Denel remains a primary supplier of ammunition, artillery and armoured vehicles and we have a growing presence in advanced technologies, precision-guided missiles, unmanned aerial vehicles and sovereign security solutions.

Regional instability is focusing the minds of defence planners, and the defence sector is increasingly called upon to prevent crime, address social unrest and support rescue efforts following natural disasters. In future there will be an even greater dependency on the capabilities, technology and experience offered by Denel.

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

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

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

TURNAROUND PLAN

The turnaround plan is designed to secure the existing customer base and revenue and identify and secure new revenue streams. Denel's future operations will be conducted within the milieu of a rapidly changing environment for state-owned companies. Government is considering a range of options with regards to business and governing models.

Denel has the flexibility to function within different scenarios and also to share its technology, knowledge and experience with other state-owned entities.

Our strategic approach is to achieve the turnaround of the company delivering on the current product portfolio, retaining core capabilities, driving contract execution and efficiencies and improving the cost structure. Sustainment will be reached once the recapitalisation funding approved by Government is fully transferred.

This will enable the Board and Management to proceed with the restructuring of the business and to concentrate the focus on growth. This entails the structuring of new divisions and the alignment of business processes, systems, governance and policies. This will result in higher levels of efficiency and significant cost savings.

Operational efficiencies are introduced to drive improvements in productivity while steps are taken to strengthen management and commercial skills and improve the quality of corporate governance.

A sustainable business model will enable Denel to focus on growth. We are exploring market opportunities for our strong range of existing products as well as in the advanced technology sectors of cybersecurity, command and control and systems integration.

There remains a large appetite for strategic partnerships in the client environment and in the private sector. Smart partnerships will support the growth of the broader defence industry while Denel will refocus on its role as an innovator and technology catalyst.

Despite the loss of valuable skills and human capacity in recent years there is still sufficient institutional knowledge remaining within the organisation. A stable Denel should be able to attract, develop and retain critical skills.

Stability will also enable Denel to restore its reputation as a credible business, a trusted partner, reliable supplier and a valuable national asset.

STRATEGIC IMPORTANCE

Government as the primary stakeholder clearly recognises the strategic importance of Denel as a commercially driven defence company and a vital supplier to the SANDF and the broader security sector. It is also cognisant of the value that Denel adds to the economy in terms of export revenue and intellectual property.

Denel still has the capacity to be at the core of the high-end advanced technology and advanced manufacturing sectors in the country. Through the years it has accumulated resources and expertise that are sustaining vital sectors of the economy from aviation to manufacturing, to construction to conservation.

Despite the economic slump the defence industry still has the potential to create high-quality jobs and be a catalyst for technologies in the downstream economic sectors. The Aerospace and Defence Masterplan stated clearly that the defence industry largely depends on Denel for its survival.

STRONG SUPPORT FROM THE BOARD

The current Board has demonstrated its support for the steps taken by management to streamline the business and will continue to provide strategic direction.

Moreover, there is a deep understanding of Denel's place in the broader economy among decision-makers in departments such as Public Enterprises, Defence and National Treasury.

A revitalised Denel will also revitalise the the company's local supply-chain network. There are growing expectations among historic and potential new suppliers that a growth in Denel's business will have a beneficial impact throughout the value chain.

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

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

FUTURE PERSPECTIVE

Revenue is expected to grow in the 2025/26 financial year and this will be spread across all aspects of Denel's future business, including guided weapons, landward, air, and integrated systems.

The new staffing philosophy is designed to attract and retain a core base of permanent employees which is augmented by contract and temporary employees, depending on the capacity requirements.

The focus now shifts to a critical stage in which Denel sustains the new business model.

As part of the restructuring Denel has started to reduce its geographic footprint and rationalise its facilities. A shared services model was introduced in areas such as supply chain management, finance, IT and human capital.

APPRECIATION

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

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

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



Mr William Hlakoane

Interim Group Chief Executive Officer





SECTION 3

OUR GOVERNANCE

OUR GOVERNANCE

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

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

The Board consists of the following committees:

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

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

- Business Development Forum
- Contract Review CFO Forum

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

DENEL BOARD OF DIRECTORS

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

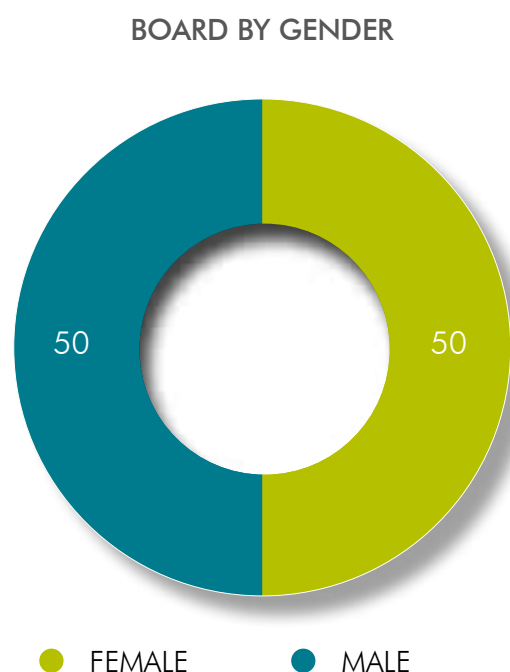
The Board plays a critical role in strategy planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie Denel's values, culture and processes. The group is managed in an efficient, accountable, transparent and ethical manner. This ethos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

RESPONSIBILITY AND ACCOUNTABILITY

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

COMPOSITION OF THE BOARD

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



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:

- William Hlakoane (AGCEO) – 22/2/2021
- Thandeka Sabela (ACFO) – 29/3/2021
- Tshidi Mokgabudi – 25/6/2021
- Tryphosa Ramano – 11/3/2022

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

It is incumbent upon the Board to act in the best interest of the company at all times, as guided by the King IV report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is considered at every Board meeting and evaluated annually as part of the Board's effectiveness review. This process creates value for the group and its stakeholders and ensures greater accountability. To ensure that governance best practice is applied, the Company Secretary performed a Board effectiveness review subsequent to the financial year end. The following areas were identified for improvement:

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

MANAGING CONFLICT OF INTEREST

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

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

BOARD INDUCTION AND SHARING OF INFORMATION

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

GROUP COMPANY SECRETARY

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

BOARD MEETINGS

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

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

			Q1 (April – June 2021)				Q2 (July – Sept. 2021)			Q3 (Oct. – Dec. 2021)			Q4 (Jan. – March 2022)	
BOARD MEMBER	Total	8 April 2021	Special 12 April 2021	11 May 2021	Special 27 May 2021	Special 28 June 2021	30 July 2021	16 Aug 2021	Special 8 Sept. 2021	5 Nov. 2021	Special 18 Nov. 2021	Special 22 Dec 2021	Special 326 Jan. 2022	21 Feb 2022
Mrs Gt Serobe (Interim Chairperson)	11/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	A	VP
Mr TH Magazi	11/12	VP	VP	VP	VP	VP	VP	VP	A	VP	VP	VP	VP	VP
Lt. Gen. TT Matanzima	12/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP
Mr MM Mnisi	12/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP
Ms AMSS Mokgabudi	7/8	-	-	-	-	-	VP	VP	A	VP	VP	VP	VP	VP
Ms MMT Ramano ¹	1/1	-	-	-	-	-	-	-	-	-	-	-	-	VP
Mr KW Hlakoane	11/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	A	VP
Ms T Sabela	12/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP
Ms M Ngema	12/12	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP

A = Apology

VC = Video Conference

VP = Virtual Platform

¹ = Appointed board member on 23 February 2022

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 2021 to 31 March 2022 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 – Q4 (April 2021 to March 22) (Amounts Paid)
NON-EXECUTIVE DIRECTORS	R'
Mrs GT Serobe	R873 589
Mr TH Magazi	R275 994
Lt Gen. (rtd) TT Matanzima	R 231 390
Mr MM Mnisi	R 217 775
Ms AMSS Mokgabudi	R 212 873
Ms MMT Ramano	R21 337
Sub total	R1 832 958
EXECUTIVE DIRECTORS	R'
Mr KW Hlakoane	R2 968 176
Ms T Sabela	R1 717 716
Sub total	R4 685 892
TOTAL	R6 518 850



BOARD COMMITTEES

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

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

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



AUDIT AND RISK COMMITTEE

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

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

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

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

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

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

		Q1 (April – June 2021)	Q2 (July – Sept 2021)	Q3 (Oct. – Dec 2021)	Q4 (Jan – Mar 2022)
COMMITTEE MEMBER	Total	No Meetings	15 Sept. 2021	No Meeting	22 Mar 2022
Ms AMSS Mokgabudi (Chairperson) ¹	2/2		VP	-	VP
Mr TH Magazi	2/2		VP	-	VP
Mr MM Mnisi	1/1		VP	-	-
Ms MMT Ramano ²	1/1	-	-	-	VP
STANDING INVITEES					
Mr KW Hlakoane	2/2		VP	-	VP
Ms T Sabela	2/2		VP	-	VP

A = Apology

VC = Video Conference

VP = Virtual Platform

¹ = Appointed Chairperson on 25 June 2021

² = Appointed board member on 23 February 2022

SOCIAL AND ETHICS COMMITTEE

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

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

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

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

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

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

		Q1 (April – June 2021)	Q2 (July – Sept 2021)	Q3 (Oct – Dec 2021)	Q4 (Jan – March 2022)
COMMITTEE MEMBER	Total	No meetings	No Meetings	No Meetings	24 March 2022
Lt. Gen. Tt Matanzima (Chairperson)	1/1	-	-	-	VP
Mr TH Magazi	1/1	-	-	-	VP
Ms AMSS	1/1	-	-	-	VP
STANDING INVITEES		-			
Mr KW Hlakoane	0/1	-	-	-	A
Ms T Sabela	1/1	-	-	-	VP
Ms M Ngema	1/1	-	-	-	VP

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

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

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

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

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

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

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

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

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

		Q1 (April – June 2021)	Q2 (July – Sept 2021)	Q3 (Oct – Dec 2021)	Q4 (Jan – March 2022)
COMMITTEE MEMBER	Total	No meetings	26 Aug 2021	No Meetings	16 March 2022
Mr TH Magazi (Chairperson)	2/2	-	VP	-	VP
Lt. Gen. TT Matanzima	2/2	-	VP	-	VP
Mr MM Mnisi	2/2	-	VP	-	VP
STANDING INVITEES					
Mr KW Hlakoane	2/2	-	VP	-	VP
Ms T Sabela	1/2	-	A	-	VP
Ms M Ngema	2/2	-	VP	-	VP

EXECUTIVE COMMITTEE

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

CODE OF ETHICS

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

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

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

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

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

INTERNAL CONTROL

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

Denel has put in place financial and operational processes to manage and monitor risk as part of a system of internal control. The system entails policies, processes and structures at all levels of the organisation to ensure the process of risk governance. Business processes, delegations of authority, significant transactions, accounting and other management standards form part of the system of internal control.

Internal control ensures the effective discharge of authority, the execution of significant transactions within the realm of the Materiality and Significant Framework and general compliance with legal and regulatory requirements. Each business unit addresses internal control issues as they arise and dedicates time (at least twice a year) to formally assess the internal control environment and risks. This ensures risks are mitigated at the appropriate levels of management throughout the group.

INTERNAL AUDIT

The Board has decided to outsource the Internal Audit function because, after an assessment of the internal skills, it became clear that, due to the business requirement and its diversity, an internal function was not sufficient to provide the required skills.

BUSINESS UNITS

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

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

COMBINED ASSURANCE

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

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

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



FRAUD AND CORRUPTION

Denel does not tolerate fraud and corruption and regards it as a cancer that should be eradicated as they have the propensity to bring the company's name into disrepute and destroy the company's value. As a State-Owned Company and a global trader in arms, regulators and the public expect the Board, management and staff to protect the company's assets and ensure fair, equitable and transparent process of procurement, avoid the abuse of supply chains, and conduct business with honesty.

The nature of Denel's business places the company at risk of collusion between employees and suppliers, theft, fraudulent invoicing, intellectual property infringements, conflicts of interest and other forms of corruption.

Denel implements a fraud and corruption prevention strategy along with the requirements of the PFMA and the principles of the UN Global Compact to mitigate this risk. The main purpose of the fraud and corruption prevention strategy is to prevent, detect and investigate incidents of fraud and corruption and ensure consequences for those found guilty of fraud and corruption. The S&E committee advises the Board on good corporate citizenship and ethical relationships in implementing the group strategy.

PREVENTION OF FRAUD AND CORRUPTION

Denel has put in place financial and operational policies and processes as part of a transparent system of internal control. The system provides for the segregation of duties to promote transparency and accountability at various levels of the group. Policies and procedures guide the way transactions should be conducted and expose impropriety. This includes a supply chain process where the purpose is to ensure transparency, equity and fairness in the procurement of goods and services. Additionally, Denel has promulgated corporate values to guide the conduct of its employees and business partners as part of a system of good corporate governance.

Denel continuously raises awareness among employees regarding the system of internal controls. This includes the delegations of authority, supply chain and other policies aimed at protecting the organisation's assets and reputation, preventing fraud and corruption and promoting ethical conduct.

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

DETECTION OF FRAUD AND CORRUPTION

Denel's process to detect fraud and corruption cuts across business functions. The recruitment processes help detect persons with high exposure for fraud and corruption through reference checking and security clearance. Supply chain and other operational requirements including entering into partnerships, dictate that due diligence be conducted to assess the standing of the potential partner. Management continuously interrogates financial, HR and supply chain information to detect possible instances of fraud and corruption as part of the day-to-day control activities. Irregular, fruitless and wasteful expenditures are continuously assessed to detect fraud and corruption.

To embed integrity in the organisation, Denel decided to introduce lifestyle audits for executives and senior staff. Lifestyle audits will commence as soon as a protocol to implement the audits, has been promulgated.

WHISTLE-BLOWING

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



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

HOTLINE: 0800 20 48 80

WHATSAPP: 0860 00 40 04

INVESTIGATION AND CONSEQUENCE MANAGEMENT

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

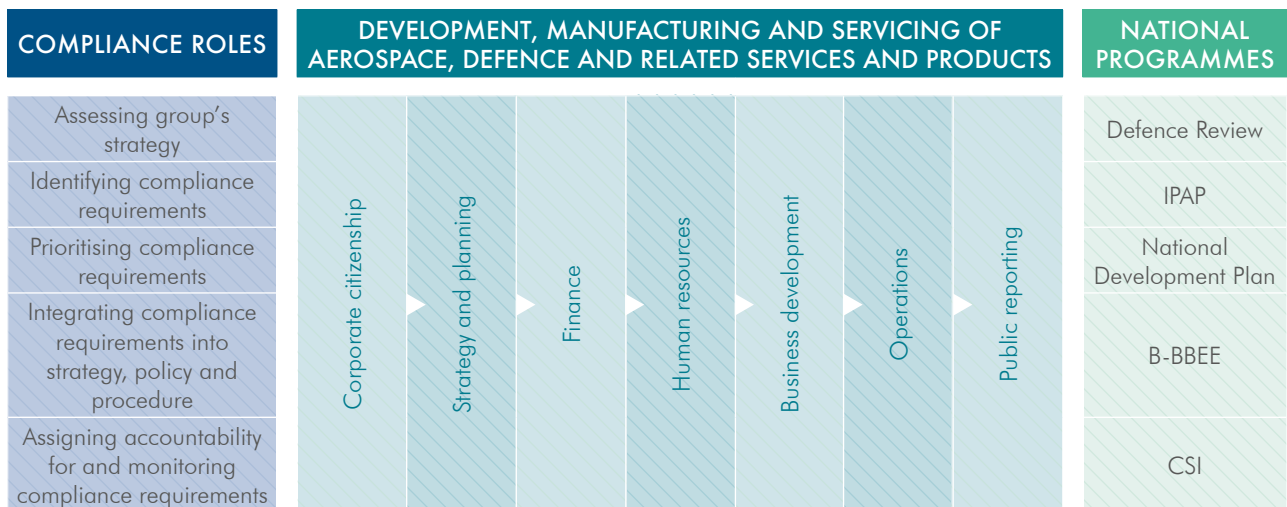
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

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

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

LEGAL COMPLIANCE FRAMEWORK

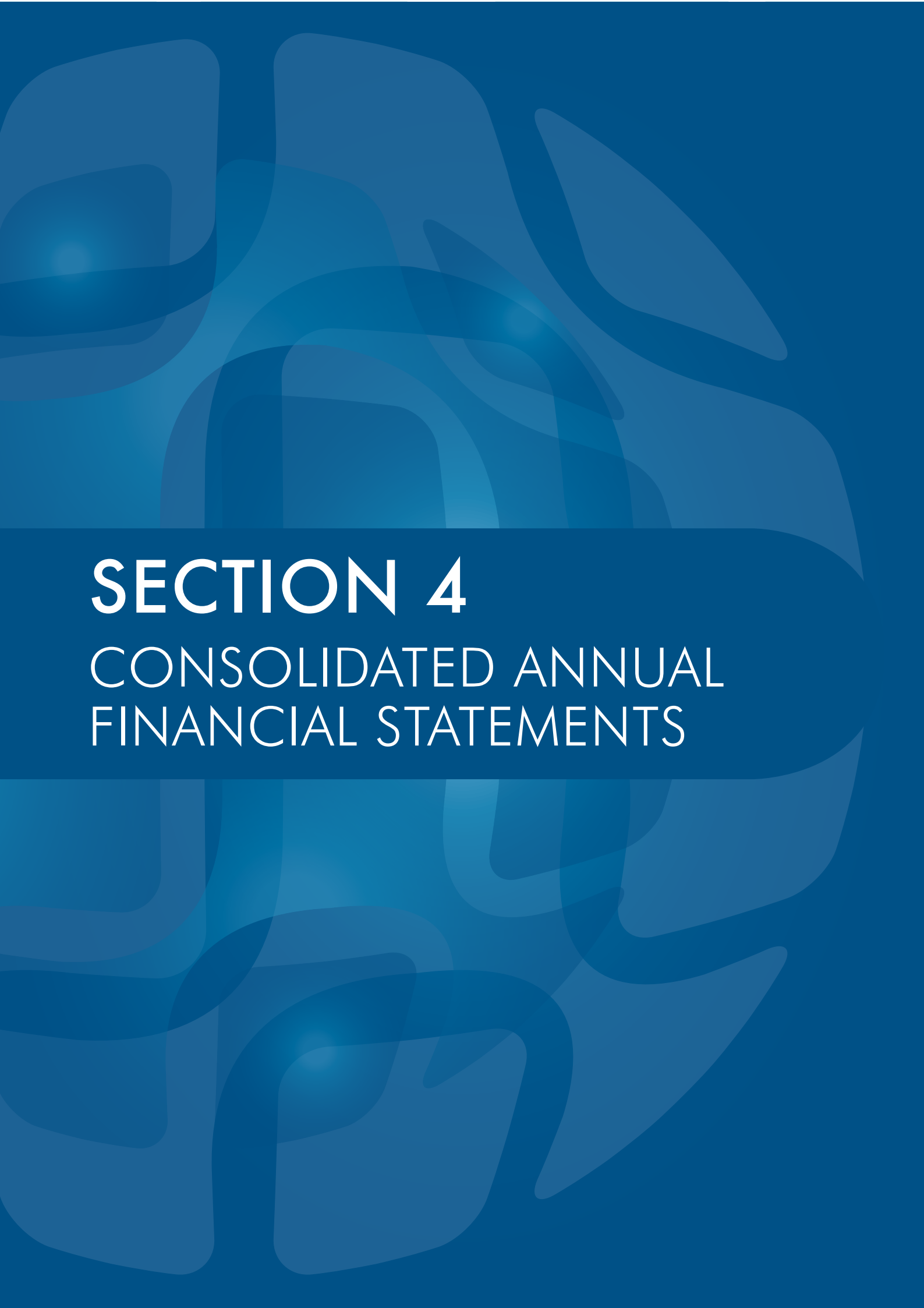
Denel has systems in place that enable the company to meet its legal and regulatory obligations regarding the protection of confidential information, occupational health and safety, the environment, quality management, as well as industry and trading requirements. The framework is illustrated in the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



Legislation: Civil Aviation, Companies Act, Competition Act, Conventional Arms Control, Employment Equity, Environmental, Exchange Control, Firearms, Labour, PFMA, Prevention of Corruption, Proliferation of Weapons of Mass Destruction, Protection of Personal Information, Public Procurement and Tax







SECTION 4

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated and separate annual financial statements.

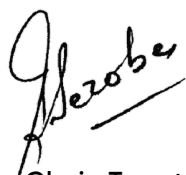
The consolidated and separate annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently auditing and reporting on the group's consolidated and separate annual financial statements. The consolidated and separate annual financial statements have been examined by the group's external auditors and their report is presented on pages 43 to 55.

The consolidated and separate annual financial statements set out on pages 56 to 140, which have been prepared on the going concern basis, were approved by the board on 31 May 2024 and were signed on their behalf by:



Mrs Gloria Tomatoe Serobe

Chairperson of the Board Denel SOC



Mr William Hlakoane

Interim Group Chief Executive Officer

DIRECTORS' REPORT

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

FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2022 RM	2021 RM
Revenue	1 387	2 315
Gross profit/(loss)	(13)	446
Other income	129	1 468
Operating expenditure	(857)	(1 855)
Earnings/loss before interest and tax (ebit)	(741)	(3)
Net finance costs	(367)	(473)
Net profit/(loss)	(1 050)	(428)

Denel's resilience has been tested during the current financial year. The performance has been reduced to an all time low of R1,3bn. This as Denel battles to pay its employees and suppliers. The majority of this revenue is from the MRO contracts at Aeronautics and the conclusion of the AV8 contract at Denel Land Systems. The performance is affected by the heavy cost structure and high finance costs as the balance sheet is burdened by debt.

EXTERNAL INTEREST EXPENSE ON BORROWINGS

Business operations are funded through a combination of cash generated, short- and medium-term bank credit facilities, corporate bonds and commercial paper borrowings. The amount of R3,2 bn of debt is unconditionally guaranteed by the government and total debt amounted to R290bn (2020/21: R3,2bn) at year-end, resulting in net external interest paid of R157m (2020/21: R191m). This amount excludes the unwinding of interest on long-term provision.

IMPAIRMENT OF ASSETS

Densecure

Densecure SOC Limited (wholly owned captive of Denel SOC "Group") writes insurance policies for the Group and its related subsidiaries. The Board of Directors resolved to transfer the insurance policies from Densecure into a new risk financing vehicle. Denel performed an impairment test on Densecure SOC Limited and impaired the total

investment in full. See note 6 of the annual financial statements for further details.

FUNDING

Denel increased its Domestic Medium-Term Note (DMTN) programme from R3bn to R4bn to stabilise and grow the company. Of the R4bn, an amount of R3,34bn is government guaranteed with the guarantee maturing on 30 September 2023. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R290m (2020/21: R3,21bn). The debt was issued through Bonds. The group's borrowings are at an average interest rate of 7.20% (2020/21: 7.27%) that includes an average overnight borrowing rate of 8.36% (2020/21: 8.28%), and an average commercial paper programme interest rate of 6.04% (2020/21: 6.26%), which resulted in borrowing cost of R118m (2020/21: R220m restated) during the year.

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

GOING CONCERN

The Board made an assessment of the group's ability to continue as a going concern in the foreseeable future and resolved that, Denel will continue as a going concern. Further details are note 42 on page 136 of the annual financial statements.

INTERNAL CONTROLS

The group has implemented a system of internal controls which is reviewed by the Audit and Risk Committee on a quarterly basis. The Board is concerned on the systems of internal controls. This is based on the disclaimer audit opinion by the AGSA, the lack of internal audit function during the year and the exodus of employees that impacts the segregation of duties controls as a result. This remains a key focus of the Board.

PFMA COMPLIANCE

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. The group identified and reported irregular expenditure of R3,25bn (2020/21: R3,22bn). To address the key areas identified there are a number of actions to be taken by management including:

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

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

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

SUBSIDIARIES AND ASSOCIATED COMPANIES

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

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the shareholder. Directors do not have the authority to issue shares of the company. The company received recapitalisation of R3,068bn during the FY2021/22 financial year and issued 30 683 shares at R1 par value and premium of R3 068 855 578,73.

DIVIDENDS

No dividend was recommended for the 2021/22 year (2020/21: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

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

AUDITORS

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

Mrs Gloria Tomatoe Serobe

Chairperson of the Board Denel SOC

CERTIFICATE BY THE GROUP COMPANY SECRETARY

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



Group Company Secretary

AUDIT OUTCOME

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

The Board, through the Audit and Risk Committee will monitor managements' remedial plans in order to improve the audit outcomes in the future.

DIRECTORATE

All details regarding the Board of Directors are discussed on pages 12 to 13.

GROUP COMPANY SECRETARY

The group company secretary for the period under review was Maryna Gie. Her business and postal addresses, which is also the address of the registered office of the company, are stated below:

Denel Building Head Office
Nellmapius Drive
Irene
Gauteng
South Africa

EVENTS AFTER REPORTING PERIOD

In order to identify events after the reporting period, all material matters affecting the Denel group, between the approval of the consolidated annual financial statements and the publication of this report were taken into account. All subsequent event have been disclosed on note 43 to page 137-139 of the Annual Financial Statements.



Mr William Hlakoane

Interim Group Chief Executive Officer

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

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of the Denel SOC Limited (Denel) and its subsidiaries (the group) set out on pages 56 to 140, which comprise the consolidated and separate statement of financial position as at 31 March 2022, consolidated and separate statement of financial performance and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for disclaimer of opinion

Going concern

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

Preparation of consolidated and separate financial statements

4. The group did not include the consolidation disclosure information relating to the group's subsidiary, the Denel Aerostructures SOC Ltd, in accordance with the requirements of International Financial Reporting Standards (IFRS) 12, *Disclosure of interests in other entities*. I have not included the omitted information in the auditor's report, as it is impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to the consolidated financial statements.
5. During 2021, I was unable to obtain sufficient appropriate audit evidence for the restatement of the comparative figures for the following financial statement items due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparatives of the following items in the financial statements:
 - Share capital stated at 2019-20: R7 976 million in note 21 to the consolidated financial statements
 - Lease liabilities stated at 2019-20: R361 million in note 5 to the consolidated financial statements
 - Other operating gains / losses stated at 2019-20: -R214 million in note 31 to the consolidated financial statements
 - Other operating income stated at 2019-20: R301 million in note 29 to the consolidated financial statements
 - Share of profit / loss in the associate companies stated at 2019-20: R62 million to the separate financial statements.
 - My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of these financial statements items in the current period.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for property, plant, and equipment due to a lack of adequate internal control systems and processes to maintain a complete fixed assets register and regular assets verifications. I was unable to confirm property, plant and equipment by alternative means.
7. In addition, the group did not adequately review the useful lives and residual values of property, plant and equipment at each reporting date, as required by IAS 16, *Property, plant and equipment*. As a result, some assets reached zero book values while still in use. Furthermore, the group did not present the impact of changes in estimates relating to useful lives and residual values as required by IAS 8, *Accounting policies, changes in accounting, estimates and errors* in the consolidated and separate financial statements.
8. Furthermore, the group did not assess property, plant and equipment for indicators of impairment in accordance with IAS 36, *Impairment of assets*. I was unable to determine the impact on the property, plant and equipment amount disclosed, as it was impracticable to do so.
9. Consequently, I was unable to determine the impact on the following items in note 4 to the consolidated and separate financial statements (respectively), as it was impracticable to do so:
 - Property, plant and equipment stated at R649 million (2020-21: R714 million; 2019-20: R852 million) and R519 million (2020-21: R584 million; 2019-20: R650 million)
 - Depreciation stated at R29 million (2020-21: R34 million; 2020-21: R147 million) and R13 million (2020-21: R13 million; 2019-20: R64 million)
 - Impairment loss stated at R5 million (positive) (2020-21: R41 million) and R0 million (2020-21: R41 million)

Intangible assets

10. I was unable to obtain sufficient appropriate audit evidence for intangible assets due to the poor status of the accounting records. I could not confirm the intangible assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to intangible assets stated at R62 million (2020-21: R66 million; 2019-20: R46 million) and R32 million (2020-21: R36 million; 2019-20: R42 million) in note 8 to the consolidated and separate financial statements.

Right-of-use assets

11. The group did not include all disclosures of the right-of-use asset, as required by IFRS 16, *Leases*. I have not included the omitted information in the auditor's report, as it was impracticable to do so.
12. The group did not measure right-of-use assets in accordance with the requirements of IFRS 16, *Leases*. Right-of-use assets were not calculated using the present value of remaining lease payments, resulting in the right-of-use assets being overstated by R180 million (2020-21: R148 million). In addition, I was unable to obtain sufficient appropriate audit evidence for right of use due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the right of use by alternative means.
13. Consequently, I was unable to determine the impact on the right-of-use asset, stated at R23 million (2020-21: R295 million; 2019-20: R352 million) and R23 million (2020-21: R295 million; 2019-20: R315 million) in note 5 to the consolidated and separate financial statements, respectively, as it was impracticable to do so.

Investment in associates

14. The group did not correctly account for gains and losses on intragroup transactions between Denel SOC Limited and the associate companies, as required by IAS 28, *Investments in associates and joint ventures* due to the incorrect implementation of IAS 28 principles. The investment in associates was overstated by R123 million (2020-21: R123 million), as disclosed note 10 of the consolidated financial statements.

15. Furthermore, the group did not adequately disclose the nature, extent and financial effect of the group's interest in associates in the investment in associates note 10 to the consolidated and separate financial statements, in accordance with IFRS 12, *Disclosure of interest in other entities*. The group did not disclose the significant judgement and assumptions as well as summarised information for some of the investment in associates held. Furthermore, the group did not disclose the other comprehensive income (fair value hedging) amount in relation to its material associate, Rheinmetall Denel Munition (Pty) Ltd. I have not included the omitted information in this auditor's report, as it was impracticable to do so.
16. During 2021, I was unable to obtain sufficient appropriate audit evidence for the investment in associates as the group did not have adequate systems in place to ensure that the impairment of investment in associates were supported by sufficient appropriate audit evidence. My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of investment in associates in the current period.
17. Consequently, I was unable to determine the impact on the investment in associates, stated at R1 109 million (2020-21: R1 098 million; 2019-20: R1 279 million), as stated in note 10 to the consolidated financial statements, because it was impracticable to do so.

Deferred tax and taxation

18. I was unable to obtain sufficient appropriate audit evidence for deferred tax and taxation, as the group did not have adequate systems in place to ensure that the deferred tax calculations were supported by sufficient appropriate audit evidence. I was unable to determine the correct adjustments to the tax losses and other temporary differences, as required by IAS 12, *Income taxes*, because it was impractical to do so.
19. Furthermore, I was unable to confirm whether it was probable that the group would generate taxable profit against which deductible temporary differences can be used.
20. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:
 - Deferred tax asset stated at R246 million (2020-21: R197 million; 2019-20: R154 million) and R0 million (2020-21: R0 million; 2019-20: R0 million) in note 15 to the consolidated and separate financial statements, respectively.
 - Deferred tax liability stated at R2 million (2020-21: R2 million; 2019-20: R2 million) and R244 million (2021-20: R195 million; 2019-20: 152 million) in the consolidated financial statements and note 15 to the consolidated financial statement.
 - Taxation stated at R34 million (2020-21: R48 million; 2019-20: R67 million) and R0 million (2020-21: -R1 million; 2019-20: R0 million) in note 34 to the consolidated and separate financial statements, respectively.

Inventories

21. I was unable to obtain sufficient appropriate audit evidence for inventories, due to the status of record keeping, lack of adequate internal controls in the group's information technology systems applied in the management of inventory and inadequate controls to reconcile the financial statements to underlying accounting records and supporting schedules. In addition, unreconciled discrepancies were noted between underlying stock records and inventory items physically verified. Furthermore, sufficient and appropriate audit evidence was not provided to support the assumptions made for the write-down of inventory to the lower of cost or net realisable value, as required by IAS 2, *Inventories*. I was unable to confirm inventories balance by alternative means.
22. 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.
23. Consequently, I was unable to determine whether adjustments were necessary to the following line items in the consolidated and separate financial statements, as it was impracticable to do so:

- Inventories stated at R1 434 million (2020-21: R1 722 million; 2019-20: R2 090 million) and R1 366 million (2020-21: R1 610 million; 2019-20: R1 924 million) in note 18 to the consolidated and separate financial statements, respectively.
- Cost of sales stated at R1 400 million (2020-21: R1 849 million; 2019-20: R2 193 million) and R1 350 million (2020-21: R1 967 million; 2019-20: R2 264 million) in note 29 to the consolidated and separate financial statements, respectively.

Trade and other receivables

24. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables due to status record keeping. In addition, I was unable to obtain sufficient and appropriate evidence that the group adequately accounted for the expected credit losses on trade receivable in accordance with IFRS 9, *Financial Instruments* due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm trade and other receivables by alternative means. Consequently, I was unable to determine whether adjustments were necessary to trade and other receivables stated at R952 million (2020-21: R648 million; 2019-20: R745 million) and R767 million (2020-21: R615 million; 2019-20: R665 million) in note 11 to the consolidated and separate financial statements, respectively.

Contract assets

25. I was unable to obtain sufficient appropriate audit evidence for contract asset due to the poor status of the 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 R558 million (2020-21: R907 million; 2019-20: R668 million) and R547 million (2020-21: R896 million; 2019-20: R620 million) in note 12 to the consolidated and separate financial statements.

Advance payment made

26. During the 2021, I was unable to obtain sufficient appropriate audit evidence for advance payment made due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the advance payment made by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to advance payment made stated at R280 million to the corresponding figures in note 16 to the separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of the advance payment made in the current period.

Cash and cash equivalents

27. I was unable to obtain sufficient appropriate audit evidence that foreign bank account included in cash and cash equivalents had been properly accounted for, due to the status of accounting records. I was unable to confirm these bank accounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R507 million (2020-21: R554 million) and R502 million (2020-21: R505 million) in note 20 to the consolidated and separate financial statements.

Non-current assets held for sale

28. The group did not correctly measure the value of non-current assets held for sale at the lower of fair value less costs to sell and the carrying amount, and did not assess the non-current assets for impairment, as required by IFRS 5, *Non-current assets held for sale and discontinued operations*. I was unable to determine the value of the misstatement as it was impracticable to do so.
29. In addition, the group did not include all disclosures of the non-current assets held for sale as required by IFRS 5, *Non-current assets held for sale and discontinued operations*. I have not included the omitted information in the auditor's report, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments

were necessary to non-current asset held for sale stated at R201 million (2020-21: R190 million; 2019-20: R178 million) and R56 million (2020-21: R56 million; 2019-20: R56 million) in note 27 to the consolidated and separate financial statements.

Provisions

30. The group did not have adequate internal 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 annual financial statements. I was unable to determine the value of the misstatement, as it was impracticable to do so.
31. At Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of records keeping and inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the provisions by alternative means.
32. Consequently, I was unable to determine whether any further adjustments were necessary to provisions stated at R551 million (2020-21: R561 million; 2019-20: R834 million) and R465 million (2020-21: R473 million; 2019-20: R460 million) in note 25 to the consolidated and separate financial statements.

Trade and other payables

33. The group did not have adequate internal control systems to recognise and account for all the trade payables transactions, as required by IAS 1, *Presentation of financial statements and Conceptual framework*. I identified creditors amounting to R87 million that were overstated and 2020-21: R161 million that were understated and not included in the trade and other payables balance in the financial statements.
34. I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to the status of records keeping. I could not confirm the trade and other payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables stated at R2 470 million (2020-21: R1 774 million; 2019-20: R1 476 million) and R2 044 million (2020-21: R1 561 million; 2019-20: R1 216 million) in note 26 to the consolidated and separate financial statements.

Advance payments received

35. The group did not have adequate internal control systems to recognise and account for all the advance payments received transactions as required by IAS 1, *Presentation of financial statements and conceptual framework*. I identified advance payments received amounting to R98 million (2020-21: R98 million) that were understated and not included in advance payments received balance in the financial statements.
36. At Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, I was unable to obtain sufficient appropriate audit evidence for prepayments due to a lack of proper record keeping. I could not confirm the prepayments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to prepayments received stated at R2 572 million (2020-21: R2 658 million) in note 24 to the consolidated financial statements.

Lease liabilities

37. The group did not include all disclosures of the lease liabilities as required by IFRS 16, *Leases*. I have not included the omitted information in the auditor's report, as it was impracticable to do so. I was unable to determine the impact on the lease liability, as it was impracticable to do so.
38. The group did not calculate lease liability using the present value of remaining lease payments, in accordance with IFRS 16, *Leases*, resulting in the lease liabilities being overstated by R116 million (2020-21: R131 million). In addition, I was unable to obtain sufficient appropriate audit evidence for lease liabilities due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the lease liabilities by alternative means.

39. Consequently, I was unable to determine the impact on the lease liability, stated at R180 million; (2020-21: R341 million; 2019-20: R361 million) and R180 million; (2020-21: R341 million; 2019- 20: R315 million) in note 5 to the consolidated and separate financial statements, respectively, because it was impracticable to do so.

Contract liabilities

40. I was unable to obtain sufficient appropriate audit evidence for contract liabilities due to the status of record keeping and the underlying accounting records. I was unable to confirm contract liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the contract liabilities stated at R1 403 million (2020-21: R1 464 million) and R1 369 million (2020-21: R1 429 million) in note 23 to the consolidated and separate financial statements.

Post-retirement benefit obligation

41. During 2021, the group did not correctly disclose the net actuarial gains and losses on the defined benefit assets in terms of IAS 19, *Employee benefits*, resulting in net benefit income being overstated by R95 million, as disclosed in note 14 to the consolidated and separate financial statements. Consequently, I was unable to determine whether any further adjustments were necessary to the net actuarial gains and losses on the defined benefit assets stated at R105 million to the corresponding figures in note 14 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the net benefit income in the current period.

Loans and borrowings

42. During 2021, I was unable to verify the loans and borrowings recognised by the group. I was unable to determine the exact impact on loans and borrowings by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to loans and borrowings stated at R3 365 million (2019-20: R3 800 million) and R3 365 million (2019-20: R3 474 million) to the corresponding figures in note 22 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of the loans and borrowings in the current period.

Reserves

43. I was unable to obtain sufficient appropriate audit evidence for reserves due to inadequate controls to reconcile the financial statements to 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 reserves stated at R77 million to the consolidated financial statements.

Revenue

44. I was unable to obtain sufficient appropriate audit evidence for revenue due to inadequate accounting systems and lack of proper record keeping. I could not confirm revenue by alternative means.
45. The group did not adequately disclose the significant financing component revenue in accordance with IFRS 15, *Revenue from contracts with customers*.
46. Furthermore, the group did not adequately disclose the accounting policy note 1.5.1 to the consolidated financial statements relating to the revenue transaction price consistently to the group's accounting for significant financing component on revenue and contract liabilities as required by IFRS 15, *Revenue from contracts with customers*.
47. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements:

- Revenue stated at R1 387 million (2020-21: R2 315 million; 2019-20: R2 810 million) and R1 320 million (2020-21: R2 156 million; 2019-20: R2 610 million) in note 28 to the consolidated and separate financial statements, respectively
- Contract assets stated at R558 million (2020-21: R907 million; 2019-20: R668 million) and R547 million (2020-21: R896 million; 2019-20: R620 million) in note 12 to the consolidated and separate financial statements, respectively
- Cost of sales stated at R1 400 million (2020-21: R1 849 million; 2019-20: R2 193 million) and R1 350 million (2020-21: R1 967 million; 2019-20: R2 264 million) in note 29 to the consolidated and separate financial statements, respectively
- Trade and other receivables stated at R952 million (2020-21: R649 million; 2019-20: R742 million) and R767 million (2020-21: R615 million; 2019-20: R665 million) in note 11 to the consolidated and separate financial statements, respectively
- Segment reporting disclosure note 28 to the consolidated and separate financial statements.

Cost of sales and other operating expenditure

48. I was unable to obtain sufficient appropriate audit evidence for cost of sales and other operating expenses, due to the status of record keeping, lack of adequate internal controls in the group's information technology systems applied in the management of cost of sales and inadequate controls to reconcile the financial statements to underlying accounting records and supporting schedules. I was could not confirm the cost of sales and other operating expenses by alternative means.
49. In addition, 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 am unable to determine the cost of sales and other operating expenses by alternative means.
50. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively.
- Cost of sales stated at R1 400 million (2020-21: R1 849 million; 2019-20: R2 193 million) and R1 350 million (2020-21: R1 967 million; 2019-20: R2 264 million) in note 29 to the consolidated and separate financial statements, respectively
 - Other operating expenses stated at R819 million (2020-21: R1 358 million; 2019-20: R2 049 million) and R633 million (2020-21: R907 million; 2019-20: R1 495 million) to the consolidated and separate financial statements, respectively
 - Trade and other payables stated at R2 470 million (2020-21: R1 774 million; 2019-20: R1 475 million) and R2 011 million (2020-21: R1 561 million; 2019-20: R1 215 million) in note 26 to the consolidated and separate financial statements, respectively
 - Accumulated loss stated at R12 535 million (2020-21: R11 333 million; 2019-20: R10 435 million) and R13 378 million (2020-21: R12 223 million; 2019-20: R11 087million) to the consolidated and separate financial statements, respectively.

Investment income

51. I was unable to obtain sufficient appropriate audit evidence for investment income due to the status of records keeping. 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 R12 million (2020-21: R29 million) and R10 million (2020-21: R28 million) in note 32 to the consolidated and separate financial statements.

Finance cost

52. I was unable to obtain sufficient appropriate audit evidence for finance cost due to the status of records keeping. I could not confirm the finance cost by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance costs stated at R377 million (2020-21: R502 million) and R381 million (2020-21: R484 million) in note 33 to the consolidated and separate financial statements.

Other operating income

53. During 2021, I was unable to obtain sufficient appropriate audit evidence for other operating income due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the other operating income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other operating income stated at R1 468 million (2019-20: R300 million) to the corresponding figures in note 30 to the consolidated financial statements. My audit opinion on the financial statements for the period ended 31 March 2021 was modified accordingly. My opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of the other operating income in the current period.

Statement of cash flows

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

- Net cash flows from operating activities, stated at -R89 million (2020-21: -R123 million; 2019-20, -R2 361 million) and -R57 million (2020-21: -R330 million; 2019-20: -R1 732 million)
- Net cash flows from investing activities, stated at -R21 million (2020-21: -R98 million; 2019-20, R27 million) and -R17 million (2020-21: R53 million; 2019-20: R3 million)
- Net cash flows from financing activities, stated at R63 million (2020-21: R123 million; 2019-20, R2 159 million) and R7 169 million (2020-21: R195 million; 2019-20: R1 841 million).

Irregular expenditure

55. Section 55(2)(b)(i) of the Public Finance Management Act 1 of 1999 (PFMA) requires the public entity to include particulars of irregular expenditure incurred in the notes to the financial statements. The group did not include all irregular expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of irregular expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 45 to the consolidated and separate financial statements as sufficient appropriate audit evidence was not provided and the amount disclosed did not agree to underlying accounting records. I was unable to confirm this by alternative means.

56. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure disclosed at R3 251 million (2020-21: R3 240 million and 2019-20: R3 170 million) and R1 860 million (2020-21: R1 834 million and 2019-20: R1 811 million) in note 45 to the consolidated and separate financial statements.

Fruitless and wasteful expenditure

57. Section 55(2)(b)(i) of the PFMA requires the public entity to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The group did not include all fruitless and wasteful expenditure incurred in the notes to the financial statements due to inadequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to determine the value of the misstatement, as it was impracticable to do so.

58. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure disclosed at R137 million (2020-21: R97 million and 2019-20: R169 million) and R129 million (2020-21: R89 million) in note 44 to the consolidated and separate financial statements.

Related parties

59. The group has extensive related-party transactions with other companies in the group, as well as with other government entities on non-standards terms and conditions. Contrary to the requirements of IAS 24, *Related party disclosures*, related party relationships with other entities, or the transactions and balances with these parties were not adequately prepared and disclosed in note 39 of the consolidated and separate financial statements.
60. In addition, I was unable to obtain sufficient appropriate audit evidence for the related-party transactions and balances due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for the related party disclosure in note 39 of the consolidated and separate financial statements.

Contingent liabilities

61. I was unable to obtain sufficient appropriate audit evidence for the contingent liabilities due to the status of record keeping. In addition, the group did not maintain accurate and complete records of the contractual information used to determine total guarantees, litigation, contract losses, site restoration and counter trade information disclosed in note 38. I was unable to confirm the contingent liabilities by alternative means.
62. In addition, the group did not account for contingent liabilities in accordance with requirements of IAS 38, *Provisions, contingent assets and contingent liabilities*. This is due to the expired guarantees included and accounted for in the total contingent liabilities disclosed in the financial statements.
63. Consequently, I was unable to determine whether any adjustments were necessary to the contingent liabilities' amounts disclosed in note 38 to the consolidated and separate financial statements.

Financial instruments and risk management

64. The group did not adequately disclose the financial instruments and risk management in accordance with IFRS 7, *Financial Instruments – Disclosures* and IAS 1, *Presentation of financial statements*. The group did not adequately disclose the nature of and risks arising from financial instruments to which they were exposed during the period and at the end of the period, and how they were managing those risks, in the financial risk management note 40 to the consolidated and separate financial statements. In addition, the group did not disclose sensitivity analyses for market risks, nor the principles and methods used to arrive at the fair values and the effect of prior period errors. I have not included the omitted information in this auditors' report, as it was impracticable to do so. Furthermore, the group could not provide the basis and the supporting documentation for the fair values disclosed in note 41 to the consolidated and separate financial statements. Consequently, I was unable to determine whether any adjustments were necessary to note 40 of the consolidated and separate financial statements.

Segment reporting

65. The group did not adequately prepare and disclose segment reporting, as required by IFRS 8, *Operating segments*. Multiple errors were identified in determining segments reported. In addition, the amount disclosed in the consolidated and separate financial statements were materially misstated, as they did not agree to the underlying records. This was because the group did not have adequate internal control system and processes in place to reconcile the underlying accounting records to the consolidated and separate financial statements. I was unable to determine the full extent of the errors in the segment reporting note 28 as it was impracticable to do so.

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

66. 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 (Companies Act), 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.

67. 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

68. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
69. 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

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

Report on compliance with legislation

72. 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.
73. 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.
74. 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.
75. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and performance, annual report

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

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

Strategic planning and performance management

78. 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).
79. An annual shareholder's compact was not prepared as required by regulation 29.2.1 of the Treasury Regulation.
80. Quarterly reports were not prepared and procedures for the facilitation of effective performance monitoring, evaluation and corrective action through quarterly reports were not established, as required by regulation 29.3.1 and 30.2.1 of the Treasury Regulation.

SOE oversight and governance

81. I was unable to obtain sufficient appropriate audit evidence that minutes of board, audit committee and risk, social and ethics and personnel, remuneration and transformation meetings were properly recorded, as required by section 88(2)(d) of the Companies Act.
82. The vacancy of the company secretary was not filled within 60 days by the board after the vacancy arose, as required by section 86(4) of the Companies Act.
83. The annual return which includes the annual financial statements was not filed by the entity, as required by section 33(1) (a) of the Companies Act and 30(2) of the Companies Regulation.

Expenditure management

84. 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, the full extent of the irregular expenditure could not be quantified.
85. 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 a disclaimer opinion, the amount of fruitless and wasteful expenditure disclosed in note 44 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred. Most of the fruitless and wasteful expenditure disclosed in the financial statements was caused by interest and penalties incurred on late payments, late delivery on orders and non-compliance with statutory requirements.

Revenue management

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

Procurement and contract management

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

Consequence management

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

Internal control deficiencies

89. 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.
90. The matters reported below are limited to the significant internal control deficiencies that resulted in a disclaimer of opinion and the material findings on compliance with legislation included in this report.
91. Due to the financial challenges experienced, the entity did not implement measures to preserve critical skills in the finance function. The entity experienced instability in leadership as a result of a number of resignations in key leadership positions, which contributed to the continued overall decline in the internal control environment. This affected the credibility of the financial statements prepared, as most experienced personnel with knowledge of the entity's financial records left the company. This was highlighted by excessive reliance on consultants for the preparation of financial statements with minimal oversight, monitoring, and review of the consultants' work at appropriate level of management.
92. Management did not implement adequate daily, weekly and monthly processing and reconciliation controls to ensure that consolidated and separate financial statements were supported by accurate schedules. This resulted in material differences between supporting schedules submitted to support the figures on the consolidated financial statements.
93. The public entity lacked a proper record-keeping system to ensure that information is readily available when requested for audit purposes. This led to significant limitation of scope findings being raised by the auditors.
94. Denel did not have proper processes for consolidation of divisions, subsidiary and associates financial information as a result of manual processes, which led to material misstatement being identified both on high level review of financial statements and detailed testing. The challenges continued up to preparation of adjusted consolidated financial statements where auditors identified more errors. Multiple financial statements line items were materially misstated, and management relied heavily on the auditor's findings to be able to make the correct adjustments on the financial statements.
95. Management did not implement sufficient and effective internal controls in order to ensure that the annual financial statements are prepared in compliance with the applicable laws and regulations. Effective and appropriate measures were not implemented to prevent and detect material errors in the submitted annual financial statements as well as to prevent and detect non-compliance with legislation.
96. There was a lack of adequate and regular review of existing policies and failure to ensure the completeness of policies to address critical changes in laws, accounting standards and regulations, which affected implementation and compliance throughout the group.
97. No adequate reviews were implemented at financial statement preparation level to ensure that information submitted for input into the financial statements is accurate, valid and complete to ensure that the amounts disclosed in the financial statements are supported by adequate supporting schedules/information.
98. Denel's IT policies were inadequately designed and outdated, which led to the inadequacy and insecure configuration of systems, patches and antivirus programs not being effectively managed, misalignment between implemented processes and those defined in policies for user access management, data backup processes as well as firewalls not being adequately managed.

99. The group did not maintain complete governance records, including minutes of meetings of the board, its sub-committees and the executive committee implemented. This has had a negative impact across the audit, as resolutions of other decisions taken could not be confirmed.
100. The effective functioning of the internal audit has been hampered by a lack of credible information to fulfil their oversight role in respect of comprehensive and appropriate assessment of the internal controls around financial and performance reporting which led to stagnation of the audit outcomes.

Other reports

101. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation, and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
102. Ongoing investigations conducted by the Special Investigating Unit in terms of Presidential Proclamation R.32 of 2019 as amended by R57 of 2019. In terms of these proclamations, the SIU was directed to investigate:
- The procurement and contracting for IT security services, services to develop a white paper relating to the validity of advance payments guarantees on all contracts entered into by Denel and the armaments corporation of South Africa SOC Ltd, legal services or steel fabrication services and steel fabricated goods and any related losses or irregular or fruitless and wasteful expenditure incurred by Denel or the State as a 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.
103. As at the date of this report, these investigations are still ongoing.

Auditor General

Pretoria
29 July 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

STATEMENT OF FINANCIAL POSITION
 AS AT 31 MARCH 2021

		Group			Company		
	Note(s)	2022	2021	2020	2022	2021	2020
Assets							
Non-Current Assets							
Property, plant and equipment	4	649	714	852	519	584	650
Right-of-use assets	5	23	295	352	23	295	315
Investment property	6	898	863	859	898	863	859
Goodwill	7	-	-	-	-	-	-
Intangible assets	8	62	66	46	32	36	42
Investments in subsidiaries	9	-	-	-	8	8	8
Investment in associate	10	1 109	1 098	1 279	371	371	394
Deferred tax	15	246	197	154	-	-	-
Prepayments	16	-	-	17	-	-	17
		2 987	3 233	3 559	1 851	2 157	2 285
Current Assets							
Inventories	18	1 434	1 722	2 090	1 366	1 610	1 924
Loans receivable		-	-	2	-	-	-
Trade and other receivables	11	952	649	742	767	615	665
Contract assets	12	558	907	668	547	896	620
Other financial assets	13	-	-	188	-	-	188
Advance payments made	16	152	273	374	167	280	335
Current tax receivable	19	13	11	7	-	-	-
Retirement benefit asset	17	1	1	1	1	1	1
Cash and cash equivalents	20	507	554	635	502	505	570
		3 617	4 117	4 707	3 350	3 907	4 303
Non-current assets held for sale and assets of disposal groups	27	201	190	178	56	56	56
		6 805	7 540	8 444	5 257	6 120	6 644
Total Assets							
Equity and Liabilities							
Equity							
Share capital	21	11 621	8 552	7 976	11 621	8 552	7 976
Reserves		77	141	30	29	29	30
Accumulated loss		(12 535)	(11 333)	(10 435)	(13 378)	(12 223)	(11 087)

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

		(837)	(2 640)	(2 429)	(1 728)	(3 642)	(3 081)
		Group			Company		
	Note(s)	2022	2021	2020	2022	2021	2020
Liabilities							
Non-Current Liabilities							
Loans and borrowings	22	100	290	414	100	290	420
Lease liabilities	5	-	-	315	-	-	315
Contract liabilities	23	42	43	80	42	43	80
Advance payments received	24	2 085	2 071	1 962	2 085	2 071	1 945
Deferred tax	15	2	2	2	2	2	2
Provisions	25	390	393	407	308	312	302
		2 619	2 799	3 180	2 537	2 718	3 064
Current Liabilities							
Trade and other payables	26	2 470	1 774	1 475	2 011	1 561	1 215
Loans and borrowings	22	345	3 075	3 386	344	3 075	3 054
Other financial assets	13	-	-	97	-	-	97
Lease liabilities	5	180	341	46	180	341	-
Contract liabilities	23	1 361	1 420	1 284	1 327	1 386	1 242
Current tax payable	19	-	-	3	-	-	3
Provisions	25	161	167	411	157	161	159
Advanced payments received		487	587	991	410	503	891
Bank overdraft	20	19	17	-	19	17	-
		5 023	7 381	7 693	4 448	7 044	6 661
Total Liabilities		7 642	10 180	10 873	6 985	9 762	9 725
Total Equity and Liabilities		6 805	7 540	8 444	5 257	6 120	6 644

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Group			Company		
	Note(s)	2022	2021	2020	2022	2021	2020
Revenue	28	1 387	2 315	2 810	1 320	2 156	2 610
Cost of sales	29	(1 400)	(1 849)	(2 193)	(1 350)	(1 967)	(2 264)
Gross (loss) profit		(13)	466	617	(30)	189	346
Other operating income	30	129	1 468	301	137	555	290
Other operating gains (losses)	31	(38)	(497)	(214)	(38)	(410)	(29)
Other operating expenses		(819)	(1 358)	(2 049)	(633)	(907)	(1 495)
Operating (loss) profit		(741)	79	(1 345)	(564)	(573)	(888)
Investment income	32	12	29	189	10	28	157
Finance costs	33	(377)	(502)	(773)	(381)	(484)	(695)
Share of profit/(loss)in associated companies		86	(82)	62	-	-	65
Loss before taxation		(1 020)	(476)	(1 867)	(935)	(1 029)	(1 361)
Taxation	34	34	48	67	-	(1)	-
Loss for the year		(986)	(428)	(1 800)	(935)	(1 030)	(1 361)
Other comprehensive income:							
Items that will not be reclassified to profit or loss:							
Share of comprehensive income of equity accounted investments		(64)	47	65	-	-	-
Other comprehensive income for the year net of taxation		(64)	47	65	-	-	-
Total comprehensive loss for the year		(1 050)	(381)	(1 735)	(935)	(1 030)	(1 361)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Revaluation reserve	Hedging Reserve	Total reserves	Accumulated loss	Total equity
Group								
Balance at 31 March 2020	1 225	6 751	7 976	30	-	30	(10 955)	(2 949)
Loss for the year	-	-	-	-	-	-	(428)	(428)
Prior year adjustment	-	-	-	-	65	65	-	65
Other comprehensive income	-	-	-	(1)	47	46	-	46
Total comprehensive Loss for the year	-	-	-	(1)	112	111	(428)	(317)
Issue of shares	-	576	576	-	-	-	-	576
Dividends	-	-	-	-	-	-	(40)	(40)
Total contributions by and distributions to owners of company recognised directly in equity	-	576	576	-	-	-	(40)	536
Balance at 31 March 2021	1 225	7 327	8 552	29	112	141	(11 333)	(2 640)
Loss for the year	-	-	-	-	-	-	(986)	(986)
Total comprehensive Loss for the year	-	-	-	-	(64)	(64)	(986)	(1 050)
Other 2	-	-	-	-	-	-	(212)	(212)
Adjustments	-	3 069	3 069	-	-	-	-	3 069
Dividends	-	-	-	-	-	-	(4)	(4)
Total contributions by and distributions to owners of company recognised directly in equity	-	3 069	3 069	-	-	-	(216)	2 853
Balance at 31 March 2022	1 225	10 396	11 621	29	48	77	(12 535)	(837)
Note(s)	21	21	21					

STATEMENT OF CHANGES IN EQUITY

	Share cap	Share premium	Total share capital	Revaluation reserve	Hedging Reserve	Total reserves	Accumulated loss	Total equity
Company								
Balance at 01 April 2020	1 225	6 751	7 976	30	-	30	(11 193)	(3 187)
Loss for the year	-	-	-	-	-	-	(1 030)	(1 030)
Other comprehensive income	-	-	-	(1)	-	(1)	-	(1)
Total comprehensive Loss for the year	-	-	-	(1)	-	(1)	(1 030)	(1 031)
Additions	-	576	576	-	-	-	-	576
Total contributions by and distributions to owners of company recognised directly in equity	-	576	576	-	-	-	-	576
Balance at 01 April 2021	1 225	7 327	8 552	29	-	29	(12 223)	(3 642)
Loss for the year	-	-	-	-	-	-	(935)	(935)
Total comprehensive Loss for the year	-	-	-	-	-	-	(935)	(935)
Other 2	-	-	-	-	-	-	(220)	(220)
Adjustments	-	3 069	3 069	-	-	-	-	3 069
Total contributions by and distributions to owners of company recognised directly in equity	-	3 069	3 069	-	-	-	(220)	2 849
Balance at 31 March 2022	1 225	10 396	11 621	29	-	29	(13 378)	(1 728)
Note(s)	21	21	21					

The accounting policies on pages 17 to 30 and the notes on pages 31 to 109 form an integral part of the consolidated and separate annual financial statements.

STATEMENT OF CASH FLOWS

		Group			Company		
	Note(s)	2022	2021	2020	2022	2021	2020
Cash flows from operating activities							
Cash used in operations	35	376	352	(1 568)	398	130	(1 040)
Tax paid	36	(2)	(2)	(3)	-	(4)	3
Net cash from operating activities		(89)	(123)	(2 361)	(57)	(330)	(1 732)
Cash flows from investing activities							
Purchase of property, plant and equipment	4	(21)	(69)	(6)	(17)	(1)	(6)
Sale of property, plant and equipment	4	-	-	6	-	53	6
Purchase of other intangible assets	8	-	(29)	-	-	-	-
Sale of loans receivables		-	-	27	-	1	-
Net cash from investing activities		(21)	(98)	27	(17)	53	3
Cash flows from financing activities							
Proceeds on share issue	21	3 069	576	1 792	3 069	576	1 800
Repayment of borrowings		(2 920)	(149)	224	(2 921)	(109)	(49)
Movement in other loans payable external		-	-	(46)	-	-	(67)
Overdraft		2	17	1	2	17	-
Payment on lease liabilities		-	(26)	-	-	(26)	-
Advanced payment		(86)	(295)	-	(79)	(263)	-
Interest income		-	-	189	-	-	157
Net cash from financing activities		63	123	2 159	7 169	195	1 841
Total cash movement for the year		(47)	(98)	62	(3)	(82)	112
Cash at the beginning of the year		535	635	573	486	570	458
Total cash at end of the year	20	488	537	635	483	488	570

The directors have pleasure in submitting their report on the consolidated and separate annual financial statements of Denel SOC Ltd and the group for the year ended 31 March 2022.

1. SHARE CAPITAL

Refer to note 21 of the consolidated and separate annual financial statements for detail of the movement in authorised and issued share capital.

2. DIRECTORATE

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

DIRECTORS	OFFICE	DESIGNATION	NATIONALITY
Michael Kgobe	Chief Executive Officer	Executive Directors	
Sabela Thandeka Nosipho	Group Chief Financial Officer	Executive Directors	
Mnisi Mandla Martin	Other	Non Executive Directors	
Matanzima Temba Templatlon	Other	Non Executive Directors	
Magazi Thamsanqa Harold	Other	Non Executive Directors	
Serobe Gloria Tomatoe	Other	Non Executive Directors	
Ramano Mmakeaye Magoro	Other	Non Executive Directors	
Mokgabudi Audrey Matshidiso	Other	Non Executive Directors	

3. HOLDING COMPANY

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

4. EVENTS AFTER THE REPORTING PERIOD

Funding

Denel Medical Benefit Trust

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

Government step in for repayment of capital and interest on Domestic Medium Term Note notes

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

Shareholder announcement for funding

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

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 2022 comprise the company, its subsidiaries and associated companies.

1. SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of preparation

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

1.2 Consolidation

Basis of consolidation

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

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

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

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

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

Where the company's interest in subsidiaries is less than 100%, the portion attributable to outside shareholders is reflected in non controlling interest. Transactions with non controlling interest entities are treated as transactions with equity owners of the group. For purchases from non controlling interests, the difference between the consideration paid and relevant share acquired is recorded in equity. Gains or losses on disposals of non controlling interests are also recorded in equity where there is no loss of control. The group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The consolidation of a subsidiary commences when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated annual income statements and statements of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

ACCOUNTING POLICIES

Investments in subsidiaries and associated companies

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

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

Separate financial statements

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

Transactions eliminated on consolidation

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

ACCOUNTING POLICIES

1.4 Judgements and estimates

Control or joint control

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

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

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

Deferred tax asset

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

Revenue, contract risks and onerous contracts

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

Useful lives and impairment of property, plant and equipment

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

Product warranties

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

ACCOUNTING POLICIES

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

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

Post-employment benefit obligations

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

Impairment testing of goodwill

The consideration of the carrying value of goodwill for impairment requires an assessment of future cash flows expected to be generated from the associated cash-generating unit, as well as the appropriate discount rate to apply to these projections. Note 8 provides information on the key assumptions adopted by the group and the associated sensitivity analysis.

1.5 Summary of significant accounting policies

1.5.1 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.

ACCOUNTING POLICIES

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

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

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

Contract revenue

Performance obligations

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

Transaction price

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

Instead, stand-alone selling prices are typically estimated based on expected costs plus the contract margin, consistent with the group's pricing principles. While payment terms vary from contract to contract, on many of the group's contracts, an element of the transaction price is received in advance of delivery. The group therefore has significant contract liabilities (Note 24). The group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile. The group also considered that, for the majority of its contracts, a prepayment guarantee is usually issued to the customer for the prepayment received.

ACCOUNTING POLICIES

Revenue and profit recognition

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

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

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

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

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

Contract modifications

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

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.

ACCOUNTING POLICIES

Costs to obtain a contract

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

Costs to fulfil a contract

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

Income from investment properties

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

1.5.2 Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a 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.

1.5.3 Taxes

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

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.

ACCOUNTING POLICIES

1.5.4 Financial instruments

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

Financial assets

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

The group has the following classes:

Loans receivables

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

Trade and other receivables

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

Prepayments made

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

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.

ACCOUNTING POLICIES

Derivative financial instruments

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

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

De-recognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

1.5.5 Foreign currencies

Functional and presentation currency

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

Recording of foreign transactions

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

Translation of foreign currency transactions

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

1.5.6 Investment properties

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

Subsequent to initial recognition, investment properties are carried at fair value, determined annually by independent external registered appraisers. Changes in fair value are recognised in profit and loss. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing

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buyer and a willing seller in an arm's-length transaction. This falls into Level 3 of the fair value hierarchy. The valuations are prepared by considering the aggregate of the net annual rentals receivable from the properties and, where relevant, associated costs. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. The range of RSA yields applied for each type of property is included below:

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

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

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

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

1.5.7 Property, plant and equipment

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

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

Depreciation

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

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

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

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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.

1.5.8 Leases

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

1.5.9 Intangible assets

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

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

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

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Research and development costs

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

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

Patents

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

Computer software

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

Business combinations and goodwill

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

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

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

ACCOUNTING POLICIES

1.5.10 Impairment

Financial assets

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

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

Non-financial assets

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

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

Reversals of impairments

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

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

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

1.5.11 Inventories

Inventories are measured at the lower of cost or net realisable value using the first-in-first-out (FIFO) formula. Net realisable value is the estimate of the selling price in the ordinary course of business less the cost of completion and selling expenses. The weighted average basis is used for certain inventory items, such as chemicals and liquids where it is not practical to apply the FIFO basis. The standard cost method is used where the results approximate the actual cost. Under a standard costing system, the cost of a product is determined using predetermined rates for the material, labour and overhead expenses based on manufacturing specifications. Where inventory has been acquired on extended credit terms, the cost

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is adjusted with the interest expense and recognised over the payment period in profit and loss. Where trade discounts, rebates and similar items are received, they are deducted in determining the cost of inventory. The following specific methods are applied in determining cost price:

Work-in-progress and finished products

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

Consumable inventories

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

1.5.12 Advance payments received from revenue contracts

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

1.5.13 Employee benefits

Pension obligations

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

Other post-retirement obligations

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

1.5.14 Countertrade obligations

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

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

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

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1.5.15 Segment reporting

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

1.5.16 Hedge accounting

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

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

1.5.17 Non-current asset held for sale

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

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

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.

1.6 Fruitless, wasteful and irregular expenditure

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

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1.7 Share capital and equity

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

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

1.8 Cost of sales

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICY

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The aggregate effect of the changes in accounting policy on the consolidated and separate annual financial statements for the year ended 31 March 2021 is as follows:

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

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
COVID-19 - Related Rent Concessions - Amendment to IFRS 16	01 January 2020	The impact of the amendment is not material.

3.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12. In May 2021 the International Accounting Standards Board (IASB) issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	01 January 2023	Unlikely there will be a material impact
Definition of accounting estimates: Amendments to IAS 8. In February 2021, the IASB issued Definition of Accounting Estimates, which amended IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.	01 January 2023	Unlikely there will be a material impact
Classification of Liabilities as Current or Non-Current - Amendment to IAS 1. In January 2020 the International Accounting Standards Board issued amendments to IAS 1 Presentation of Financial Statements that clarify its requirements for the presentation of liabilities in the statement of financial position.	01 January 2023	Unlikely there will be a material impact
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments provide guidance and to help entities apply materiality judgements to accounting policy disclosures, and distinguish changes in accounting estimates from changes in accounting policies.	01 January 2023	Unlikely there will be a material impact

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

Group	2022			2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	56	-	56	56	-	56	56	-	56
Buildings	475	(260)	215	472	(258)	214	577	(281)	296
Plant and machinery	1 453	(1 117)	336	1 457	(1 089)	368	1 487	(1 145)	342
Motor vehicles	94	(80)	14	101	(66)	35	103	(69)	34
Office equipment	28	(24)	4	28	(23)	5	48	(39)	9
IT equipment	141	(122)	19	141	(114)	27	221	(189)	32
Capital - Work in progress	5	-	5	9	-	9	8	6	14
Total	2 252	(1 603)	649	2 264	(1 550)	714	2 500	(1 717)	783

Company	2022			2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	56	-	56	56	-	56	56	-	56
Buildings	475	(260)	215	472	(258)	214	484	(259)	225
Plant and machinery	1 323	(1 117)	206	1 327	(1 089)	238	1 293	(1 007)	286
Motor vehicles	94	(80)	14	101	(66)	35	103	(63)	40
Office equipment	28	(24)	4	28	(23)	5	29	(21)	8
IT equipment	141	(122)	19	141	(114)	27	142	(113)	29
Capital - Work in progress	5	-	5	9	-	9	8	-	8
Total	2 122	(1 603)	519	2 134	(1 550)	584	2 115	(1 463)	652

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - Group - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	56	-	-	-	-	-	56
Buildings	214	2	-	-	(4)	-	212
Plant and machinery	368	-	(14)	-	(23)	(5)	336
Motor vehicles	35	-	(20)	-	(1)	-	14
Office equipment	5	1	-	-	(1)	-	5
IT equipment	27	-	(8)	-	-	-	19
Capital - Work in progress	9	-	-	(4)	-	-	5
	714	3	(42)	(4)	(29)	(5)	647

Reconciliation of property, plant and equipment - Group - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	56	-	-	-	-	-	56
Buildings	296	-	(76)	-	(6)	-	214
Plant and machinery	342	75	-	-	(12)	(37)	368
Motor vehicles	34	6	-	-	(4)	(1)	35
Office equipment	9	-	-	-	(1)	(3)	5
IT equipment	32	6	-	-	(11)	-	27
Capital - Work in progress	14	-	-	(5)	-	-	9
	783	87	(76)	(5)	(34)	(41)	714

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - Group - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	56	-	-	-	-	56
Buildings	301	-	-	(3)	(4)	294
Plant and machinery	461	4	(4)	-	(119)	342
Motor vehicles	44	-	(1)	-	(9)	34
Office equipment	11	-	-	-	(2)	9
IT equipment	45	-	-	-	(13)	32
Capital - Work in progress	21	-	-	(7)	-	14
	939	4	(5)	(10)	(147)	781

Reconciliation of property, plant and equipment - Company - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	56	-	-	-	-	56
Buildings	214	1	-	-	-	215
Plant and machinery	238	-	(28)	-	(4)	206
Motor vehicles	35	-	(19)	-	(2)	14
Office equipment	5	-	-	-	(1)	4
IT equipment	27	-	(2)	-	(6)	19
Capital - Work in progress	9	-	-	(4)	-	5
	584	1	(49)	(4)	(13)	519

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - Company - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	56	-	-	-	-	-	56
Buildings	223	-	(1)	-	(8)	-	214
Plant and machinery	286	-	(6)	4	(5)	(41)	238
Motor vehicles	40	-	-	(5)	-	-	35
Office equipment	8	-	-	(3)	-	-	5
IT equipment	29	-	(2)	-	-	-	27
Capital - Work in progress	8	1	-	-	-	-	9
	650	1	(9)	(4)	(13)	(41)	584

Reconciliation of property, plant and equipment - Company - 2020

	Opening balance	Additions	Disposals	Write off	Depreciation	Total
Land	56	-	-	-	-	56
Buildings	213	2	-	-	(3)	212
Plant and machinery	331	3	(6)	1	(39)	291
Motor vehicles	49	-	(1)	-	(9)	40
Office equipment	9	-	-	-	(2)	7
IT equipment	46	-	-	1	(11)	35
Capital - Work in progress	19	1	-	(8)	-	12
	723	6	(7)	(6)	(64)	653

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

5. LEASES (DENEL SOC LIMITED 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 Denel SOC Limited is lessee are presented below:

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

Net carrying amounts of right-of-use assets

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

Figures in Rand million	Group			Company		
	2022	2021	2020	2022	2021	2020
Buildings	23	295	350	23	295	315
Plant and machinery	-	-	2	-	-	-
	23	295	352	23	295	315

Depreciation recognised on right-of-use assets

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

Figures in Rand million	Group			Company		
	2022	2021	2020	2022	2021	2020
Buildings	(35)	34	8	(35)	34	8

Other disclosures

Interest expense on lease liabilities	-	7	4	-	-	-
Expenses on short-term leases included in operating expenses	1	2	2	-	-	-
Leases of low value assets included in operating expenses	1	1	1	1	1	1
Variable lease payments not included in the measurement of lease liabilities included in operating expenses	3	4	10	3	4	10
Variable lease payments included in cost of merchandise sold and inventories	-	5	10	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

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

Lease liabilities

Lease liabilities have been included in the borrowings line item on the statement of financial position. Refer to note 22 Borrowings.

The maturity analysis of lease liabilities is as follows:

Figures in Rand million	Group			Company		
	2022	2021	2020	2022	2021	2020
Non-current liabilities	-	-	315	-	-	315
Current liabilities	180	341	46	180	341	-
	180	341	361	180	341	315

6. INVESTMENT PROPERTY

Figures in Rand million	Group			Company		
	2022	2021	2020	2022	2021	2020
Fair value at 1 April	863	859	832	863	859	832
Fair value adjustment (refer note 4)	35	4	27	35	4	27
Fair value at 31 March	898	863	859	898	863	859

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

For further details on investment properties, refer to accounting policies, note 1.5.6 on page 16.

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void period, occupancy rate, lease incentive costs such as rent-free period and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs. secondary), tenant credit quality and lease terms.	- Expected market rental growth (8% - 10%, weighted average 9%); - Void periods (average six months after the end of each lease); - Occupancy rate (90 - 96%, weighted average 93%); - Rent-free periods (six months period on new leases required); and - Risk adjusted discount rates (12.0%, weighted average 13.13%).	The estimated fair value would increase/decrease if: - Expected market rental growth were higher/lower; - The occupancy rate were higher/lower; - Rent-free periods were shorter/longer; or - The risk-adjusted discount rate were low.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

7. GOODWILL

Group	2022			2021			2020		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Goodwill	-	-	-	241	(241)	-	10	(10)	-

Reconciliation of goodwill		
	Group	Goodwill
Cost		
At 01 April 2019	10	10
At 31 March 2020	10	10
Cost		
At 01 April 2020	10	10
Impairment of goodwill	(10)	(10)
At 31 March 2021	-	-
Depreciation and impairment		
At 01 April 2019	(3)	(10)
Classified as held for sale	-	-
Impairment loss in income	(7)	-
At 31 March 2020	(10)	(10)
Depreciation and impairment		
At 01 April 2020	(10)	(10)
Classified as held for sale	-	-
Transfers	-	-
Impairment loss in income	10	10
Foreign exchange movements	-	-
At 31 March 2021	-	-
Carrying amount		
Cost	10	10
Accumulated depreciation and impairment	(10)	(10)
At 31 March 2020	-	-
Cost	10	10
Accumulated depreciation and impairment	(10)	(10)
At 31 March 2021	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

Group	2022			2021			2020		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Computer software	179	(142)	37	179	(138)	41	217	(196)	21
Development costs	203	(186)	17	203	(186)	17	203	(186)	17
Other intangible assets	8	-	8	8	-	8	8	-	8
Total	390	(328)	62	390	(324)	66	428	(382)	46

Company	2022			2021			2020		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Computer software	149	(42)	7	149	(138)	11	151	(133)	18
Development costs	203	(186)	17	203	(186)	17	203	(186)	17
Other intangible assets	8	-	8	8	-	8	8	-	8
Total	360	(328)	32	360	(324)	36	362	(319)	43

Reconciliation of intangible assets - Group - 2022

	Opening balance	Amortisation	Total
Computer software	41	(4)	37
Development Costs	17	-	17
Other intangible assets	8	-	8
	66	(4)	62

Reconciliation of intangible assets - Group - 2021

	Opening balance	Additions	Amortisation	Total
Computer software	21	29	(9)	41
Development Costs	17	-	-	17
Other intangible assets	8	-	-	8
	46	29	(9)	66

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS (continued)

Reconciliation of intangible assets - Group - 2020

	Opening balance	Amortisation	Total
Computer software	29	(8)	21
Development Costs	18	(1)	17
Other intangible assets	8	-	8
	55	(9)	46

Reconciliation of intangible assets - Company - 2022

	Opening balance	Amortisation	Total
Computer software	11	(4)	7
Development Costs	17	-	17
Other intangible assets	8	-	8
	36	(4)	32

Reconciliation of intangible assets - Company - 2021

	Opening balance	Amortisation	Total
Computer software	18	(7)	11
Development Costs	17	-	17
Other intangible assets	8	-	8
	43	(7)	36

Reconciliation of intangible assets - Company - 2020

	Opening balance	Amortisation	Total
Computer software	25	(7)	18
Development Costs	18	(1)	17
Other intangible assets	8	-	8
	51	(8)	43

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES

Unlisted shares	836	2 525	2 525
Accumulated impairment	(828)	(2 517)	(2 517)
	8	8	8

Company

Name of subsidiary	Held by	Effective Shareholding 2022	Effective Shareholding 2021	Effective Shareholding 2020	Share investment by Denel SOC Ltd 2022	Share investment by Denel SOC Ltd 2021	Share investment by Denel SOC Ltd 2020
Denel Aerostructures SOC Ltd	Denel SOC	-%	-%	100,00%	-	-	1 689
Densecure SOC Ltd	Denel SOC	100,00%	100,00%	100,00%	8	8	8
Denel Vehicles Systems (Pty) Ltd	Denel SOC	100,00%	100,00%	100,00%	827	827	827
					835	835	2 525

LMT

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

DAE

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES (continued)

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

TMA

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

DVS

At acquisition of Denel Vehicle Systems (Pty) Ltd, Denel recognised goodwill of R242 m. In 2017/18, the recoverable R 417m was based on its value in use, determined by discounting the future cash flows to be generated from its continued use. The carrying amount was determined to be higher than its recoverable amount. An impairment loss of R 44m was recognised. The impairment was allocated with R33m against the remaining goodwill.

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

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

10. INVESTMENT IN ASSOCIATED COMPANIES

10.1 Establishment of associated companies

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

Associated company	Equity partner	2019/2020 - 2021/2022			
		Denel SOC Ltd		Equity partners	
		Shareholding %	Number of board members	Shareholding %	Number of board members
Rheinmetall Denel Munition (Pty) Ltd	Rheinmetall Waffe Munition GmbH 1	49	2	49	2
Pioneer Land Systems LLC	International Golden Group PJSC 2	49	2	49	2
Barij Dynamics	Tawazun Holding	49	2	51	2

The above mentioned information was used in management's judgement that Denel did not exercise control over these companies and therefore, will disclosed these companies as associate companies. The financial year-end of all Denel's associated companies is 31 December.

10.2 Net investment in associated companies

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

	2022	2021	2020	2022	2021	2020
Cost of investments in associated companies						
Unlisted shares	371	371	394	371	371	394
Net share of results in associated companies	737	727	925	-	-	-
Share of current year profit before tax	81	(107)	2	-	-	-
Share of current year tax	4	25	63	-	-	-
Share of current year profit after tax	86	(82)	65	-	-	-
Dividends paid	-	(39)	(85)	-	-	-
Accumulated profit at 1 April	-	925	905	-	-	-
Transferred to non current assets	(11)	(12)	(25)	-	-	-
Share of other comprehensive income - fair value hedge	(64)	47	65	-	-	-
Impairment of Investment	-	(112)	(40)	-	-	-
Accumulated profit at 1 April	727	925	905	-	-	-
Net investments in associated companies	1 108	1 098	1 279	371	371	394

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

	2022	2021	2020	2022	2021	2020
Cost of investments in associated companies						
Rheinmetall Denel Munition(Pty) Ltd	895	935	905	371	371	371
Barij Dynamics LLC (Previously Tawazun Dynamics)	213	163	374	-	-	23
Net investments in associated companies	1 108	1 098	1 279	371	371	394

None of the investments in associated companies were impaired during the year under review.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

10.3 Extracts from audited financial statements

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

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

Figures in Rand million	2022	2021	2020
Total assets	4 405	4 515	3 721
Non-current assets	1 056	1 132	1 072
Current assets	3 349	3 383	2 649
Total liabilities	2 824	2 852	2 121
Non-current liabilities	248	260	503
Current liabilities	2 576	2 592	1 618
Net assets	1 581	1 663	1 600
Group's share of associated company's net assets	775	815	785
Revenue	2 000	2 296	1 514
Group's share of revenue	980	1 125	742
Profit before tax	61	(61)	(228)
Group's share of profit before tax	30	(30)	(112)
Profit after tax	48	(34)	(150)
Group's share of profit after tax	24	(17)	(74)

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN ASSOCIATED COMPANIES (continued)

Figures in Rand million	2022	2021	2020
Total assets	2 340	2 930	4 024
Non-current assets	196	261	358
Current assets	2 144	2 669	3 666
Total liabilities	1 616	2 113	2 802
Non-current liabilities	168	183	289
Current liabilities	1 448	1 930	2 513
Net assets	724	817	1 222
Group's share of associated company's net assets	354	400	599
Revenue	579	731	2 148
Group's share of revenue	284	358	1 053
Profit before tax	(64)	(51)	231
Group's share of profit before tax	(31)	(25)	113
Profit after tax	(64)	(51)	231
Group's share of profit after tax	(31)	(25)	113

11. TRADE AND OTHER RECEIVABLES

Figures in Rand million	2022	Group 2021	2020	2022	Company 2021	2020
Financial instruments:						
Trade receivables	809	616	595	611	539	546
Trade receivables - related parties	52	3	81	94	42	54
Loss allowance	(112)	(94)	(141)	(107)	(86)	(136)
Trade receivables at amortised cost	749	525	535	598	495	464
Deposits	5	5	6	5	5	6
Operating lease receivables (if immaterial)	86	62	81	33	62	54
Sundry receivables	110	56	109	129	53	128
Interest receivables	2	-	-	2	-	-
Non-financial instruments:						
VAT	-	-	14	-	-	13
Total trade and other receivables	952	648	745	767	615	665
Split between non-current and current portions						
Current assets	952	648	745	767	615	665
Financial instrument and non-financial instrument components of trade and other receivables						
At amortised cost	952	243	729	767	684	653
Non-financial instruments	-	10	43	-	-	13
	952	253	772	767	684	666

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES (continued)

Accumulated impairment

Trade receivable expected credit losses were measured on the simplified approach: allowing Denel to recognise lifetime expected losses on assets without the need to identify significant increases in credit risk.

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

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

Exposure to credit risk

Trade receivables inherently expose the group to credit risk, being the risk that the group will incur financial loss if customers fail to The group's historical credit loss experience does not show significantly different loss patterns for different customer segments. The expected credit losses is therefore based on past due status without disaggregating into further risk profiles.

12. CONTRACT ASSETS

	2022	2021	2020	2022	2021	2020
Contract assets	560	909	669	549	898	620
Loss allowance	(2)	(2)	(1)	(2)	(2)	-
	558	907	668	547	896	620

Reconciliation of contract assets

Opening balance				907	668	850
Adjustments				(295)	291	92
IFRS Change				-	4	(358)
Other				(15)	(54)	67
Impairment				(39)	(2)	
Other movements				-	-	11
				558	907	668

Split between non-current and current portions

Current assets	558	907	668	547	896	620
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NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

13. OTHER FINANCIAL ASSETS AND LIABILITIES

	2022	2021	2020	2022	2021	2020
Non-hedging derivatives						
Foreign Exchange Assets Forward Exchange Contract				-	-	(54)
Firm Commitment FEC				-	-	145
Split between non-current and current portions						
Current assets	-	-	189	-	-	188
Current liabilities	-	-	(144)	-	-	(97)
	-	-	45	-	-	91

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

14. POST-RETIREMENT OBLIGATIONS

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

14.1 Denel Medical Benefit Trust

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made into a separate trustee administrated fund. Denel does not make annual contributions as the trust is fully funded. However, (2019/20: R26m) was contributed during the year under review to reimburse the trust for the impact of early retirements.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 01 April 2021 indicated the trust is over-funded. The DMBT's expected long-term investment return was based on the yields of the 10.8 year yield from the South African zero coupon government bond as at 1 April 2021 and a real discount rate of 3.32%. Whilst there are currently no unrecognised actuarial losses and past services cost however there are contribution holidays due to the group. This is based on the fact that the group has not had to make any payments against its obligation as the trust is fully funded. Therefore, there is a plan assets recognised due to statutory requirements.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise and is exploring the possibility of limiting its exposure through a voluntary settlement process. For further detail refer to the directors' report on page 2.

	2022	2021	2020
Change in defined benefit funded obligation			
Present value of funded obligations at 1 April	375	375	389
Interest cost on projected benefit obligation	38	34	36
Remeasurement	(16)	(4)	(22)
Benefits paid	(30)	(30)	(28)
Present value of funded obligations at 31 March	367	375	375
Change in plan assets			
Fair value of plan assets at 1 April	1 645	1 486	1 394
Expected return on plan assets	172	141	133
Remeasurement	88	48	(13)
Benefits paid	(30)	(30)	(28)
Present value of plan assets at 31 March	1 875	1 645	1 486

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

14. POST-RETIREMENT OBLIGATIONS (continued)

	2022	2021	2020
Fund excess	1 508	1 270	1 111
Excess not recognised	(1 508)	(1 269)	(1 110)
Unrecognised actuarial gains	-	1	1
Net benefit expenses			
Service cost	-	-	1
Interest cost	38	34	34
Expected return on plan assets	(172)	(141)	131
Net actuarial loss recognised during the year	-	-	(105)
Income	(134)	(107)	61
The principal actuarial assumptions used for accounting purposes were:			
Expected return on plan assets	10,6 %	10,6 %	9,6 %
Expected medical inflation	8,2 %	8,2 %	7,1 %
The beneficiary members from the funds are as follows:			
Active members	25	32	54
Retired members	605	8	637

	2021		2020		2019	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	%	%	%	%	%	%
A 1.0% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation	9	7	8	7	9	8

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

	2022	2021	2020	2019	2018	2017	2016
	R	R	R	R	R	R	R
Defined benefit obligation	(367)	(375)	(374)	(388)	(409)	(503)	(481)
Plan assets	1 875	1 645	1 485	1 394	1 326	1 360	1 288
Surplus	1 508	1 270	1 111	1 005	917	857	(807)
Experience adjustments on plan liabilities	-	-	(9)	(3)	-	15	5

Discount rate Variation	Health care cost inflation	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
+1%	8,84	8,1%	-38,4%	8,8%
-1%	6,84	-7,2%	39,6%	-7,6%

Retirement Age	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
65		0,038%	-15%
55		0,076%	-28%

14.1 Denel Retirement Fund

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

15. DEFERRED TAX

	2022	2021	2020	2022	2021	2020
Deferred tax liability						
Property plant and equipment	246	197	154	-	-	-
Other deferred tax liability	(2)	(2)	(2)	(2)	(2)	(2)
Total deferred tax liability	244	195	152	(2)	(2)	(2)

Deferred tax asset

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:

	2022	2021	2020	2022	2021	2020
Deferred tax liability	244	195	152	(2)	(2)	(2)

16. PREPAYMENTS

	2022	2021	2020	2022	2021	2020
Prepayments	-	-	17	-	-	17
Prepayments (if material)	152	273	374	167	280	335

17. RETIREMENT BENEFIT ASSET

	2022	2021	2020	2022	2021	2020
Other asset 3 - Current portion	1	1	1	1	1	1

18. INVENTORIES

	2022	2021	2020	2022	2021	2020
Consumable inventory	712	761	395	655	686	177
Contracts in progress	627	795	883	512	660	842
Finished goods	335	356	1 128	325	342	981
Work in progress	154	159	161	154	159	161
Goods in transit	2	27	41	2	27	41
	1 830	2 098	2 608	1 648	1 874	2 202
Inventories (write-downs)	(396)	(376)	(518)	(282)	(264)	(278)
	1 434	1 722	2 090	1 366	1 610	1 924

19. CURRENT TAX PAYABLE (RECEIVABLE)

	2022	2021	2020	2022	2021	2020
Current tax receivable	13	11	7	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

20. CASH AND CASH EQUIVALENTS

	2022	2021	2020	2022	2021	2020
Cash and cash equivalents consist of:						
Bank balances	498	535	580	493	497	550
Short-term deposits	4	10	16	4	3	3
Other cash and cash equivalents	5	9	39	5	5	17
Bank overdraft	(19)	(17)	-	(19)	(17)	-
	488	537	635	483	488	570
Current assets	507	554	635	502	505	570
Current liabilities	(19)	(17)	-	(19)	(17)	-
	488	537	635	483	488	570

21. SHARE CAPITAL

	2022	2021	2020	2022	2021	2020
Authorised						
1 000 000 000 Class A ordinary shares of R1 each	1 000	1 000	1 000	1 000	1 000	1 000
232 455 747 Class B ordinary shares of R1 each	232	232	232	1 000	232	232
	1 232	1 232	1 232	2 000	1 232	1 232
Issued						
Ordinary	1 225	1 225	1 225	1 225	1 225	1 225
Share premium	10 396	7 327	6 751	10 396	7 327	6 751
	11 621	8 552	7 976	11 621	8 552	7 976

22. BORROWINGS

	2022	2021	2020	2022	2021	2020
Held at amortised cost						
Bank loan	100	290	420	100	290	420
Finance Leases	-	-	(6)	-	-	-
External Other loans	345	3 075	2 720	344	3 075	2 720
Other financial liabilities	-	-	666	-	-	334
	445	3 365	3 800	444	3 365	3 474
Split between non-current and current portions						
Non-current liabilities	100	290	414	100	290	420
Current liabilities	345	3 075	3 386	344	3 075	3 054
	445	3 365	3 800	444	3 365	3 474

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

22. BORROWINGS (continued)

Unsecured Bonds

Denel registered a R3 bn (2014/15: R2.2 bn) Domestic Medium-Term Note programme with the JSE, which was increased to R4 bn during 2018/19. Under the programme, Denel could raise senior and/or subordinated notes up to the registered amount, and the amount at year-end was R290 mil (2020/21: R3.2 bn). The programme contains cross default (indebtedness of outstanding amount equals or exceeds 1% (2020/21: 1%) of total asset of issuer) and negative pledge clause (which precludes the company from encumbering any assets or revenue of the company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims that it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2023. The total borrowings, R290 mil (2021/20: R3.4 bn), is backed by government guarantees.

Commercial paper

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

	Issue date		Maturity date		Rm	
Weighted Average Effective Interest rates						
3 month JIBAR + 175bps	27 September 2019		27 September 2020		150	
3 month JIBAR + 175bps	01 January 2020		31 January 2021		40	
3 month JIBAR + 220bps	28 September 2018		28 September 2023		100	
					290	
Weighted average effective interest rates						
Other	-	-	-	-	-	157
Local unsecured loans (fixed rate)	-	-	-	-	-	8
Current bank borrowings (floating rate)	-	-	-	-	-	9
	-	-	-	-	-	174
Summary of maturity of borrowings						
Maturing:						
Between three and twelve months	364	3 077	2 995	364	3 079	2 995
Between one and two years	-	190	130	-	190	130
Between two and three years	100	100	150	100	100	150
Between three and five years	-	-	140	-	-	140
	464	3 367	3 415	464	3 369	3 415

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

23. CONTRACT LIABILITIES

	2022	2021	2020	2022	2021	2020
Summary of contract liabilities						
Contract assets	42	166	80	42	43	80
Other contract assets	1 327	1 386	1 258	1 327	1 386	1 242
Construction contracts	34	34	26	-	-	-
	1 403	1 586	1 364	1 369	1 429	1 322
Reconciliation of contract liabilities						
Opening balance	1 586	1 364	1 274	1 429	1 322	1 226
IFRS change	(60)	55	90	(60)	107	96
	1 526	1 419	1 364	1 369	1 429	1 322
Split between non-current and current portions						
Non-current liabilities	42	43	80	42	43	80
Current liabilities	1 361	1 543	1 284	1 327	1 386	1 242
	1 403	1 586	1 364	1 369	1 429	1 322

24. ADVANCED PAYMENTS RECEIVED

Explain / disclose						
Non-current liabilities	2 085	2 071	1 962	2 085	2 071	1 945

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

25. PROVISIONS

Reconciliation of provisions - Group - 2022

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/ unwinding of discount on provisions	Total
Restructuring	(2)	-	-	-	(2)
Site restoration	247	10	(7)	-	250
Other	1	-	-	-	1
Contract risk and onerous contracts	81	-	-	44	125
Product warranty and support	195	-	-	(55)	140
Counter trade	37	-	-	-	37
	559	10	(7)	(11)	551

Reconciliation of provisions - Group - 2021

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/ unwinding of discount on provisions	Total
Site restoration	231	(1)	-	17	247
Legal proceedings	1	-	-	-	1
Contract risk and onerous contracts	336	-	(2)	(253)	81
Product warranty and support	199	-	(4)	-	195
Counter trade	50	-	-	(13)	37
Insurance	17	-	-	(17)	-
	834	(1)	(6)	(266)	561

Reconciliation of provisions - Group - 2020

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/ unwinding of discount on provisions	Total
Site restoration	189	-	(3)	45	231
Other	5	-	(5)	-	-
Legal proceedings	1	-	-	-	1
Contract risk and onerous contracts	782	24	-	(470)	336
Product warranty and support	197	34	-	(32)	199
Counter Trade	29	37	(16)	-	50
Insurance	9	16	(8)	-	17
	1 212	111	(32)	(457)	834

Reconciliation of provisions - Company - 2022

	Opening balance	Additions	Realised	Total
Site restoration	247	25	(22)	250
Legal proceedings	1	-	-	1
Contract risk and onerous contracts	3	46	(2)	47
Product warranty and support	188	1	(56)	133
Counter trade	34	-	-	34
	473	72	(80)	465

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

25. PROVISIONS (continued)

Reconciliation of provisions - Company - 2021

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/ unwinding of discount on provisions	Total
Site restoration	226	(1)	-	22	247
Other	1	-	-	-	1
Contract risk and onerous contracts	47	-	-	(44)	3
Product warranty and support	160	-	(8)	36	188
Counter Trade	42	-	-	(8)	34
	476	(1)	(8)	6	473

Reconciliation of provisions - Company - 2020

	Opening balance	Charged to the income statement	Realised	Unused amounts reversed/ unwinding of discount on provisions	Total
Site restoration	185	-	(3)	44	226
Legal proceedings	1	-	-	-	1
Contract risk and onerous contracts	81	4	-	(38)	47
Product warranty and support	155	23	(10)	(8)	160
Counter Trade	24	18	-	-	42
Performance Guarantees	5	-	(5)	-	-
	451	45	(18)	(2)	476

	2022	2021	2020	2022	2021	2020
Non-current liabilities	390	394	407	308	312	301
Current liabilities	161	167	411	157	161	159
	551	561	818	465	473	460

The warranty provision represents management's best estimate of the group's liability under one period warranties granted on electrical, products, based on prior experience and industry averages for defective products.

There is no expected reimbursement from the manufacturer in respect of this provision.

The group moved from its previous leased premises. The lease is non-cancellable and the lease continue for the next - years. The company cannot find a lessee to occupy the premises.

	2022	2021	2020	2022	2021	2020
Non-Current Provision						
Product warranty and recall	-	-	-	75	-	-
Site restoration	-	-	-	226	-	-
	-	-	-	301	-	-
Current Provision						
Contract risk and onerous contracts	-	-	-	-	-	39
Performance guarantees	-	-	-	-	-	80
Site restoration	-	-	-	-	-	39
Other	-	-	-	-	-	1
	-	-	-	-	-	159

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

25. PROVISIONS (continued)**Contract risks and onerous contracts**

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract. Denel is under negotiations with a major client at its Aerostructure business to exit the contract in the next 48 months. As at 31 March 2019, the Board had approved the exit of this contract and had processed the required PFMA requirements. As such, a provision of R209 m has been recognised for the cost to be incurred on the exit of this contract.

Performance guarantees

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

Product warranty and recall

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

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.

Other provisions

Other provisions comprise the following:

Legal costs and dispute

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or units within the group are involved. It also refers to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is R0 m (2018/19: R0.8 m; 2017/18: R0.7 m) for both the group and company.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

26. TRADE AND OTHER PAYABLES

	2022	2021	2020	2022	2021	2020
Financial instruments:						
Trade payables	1 049	747	665	780	664	558
Trade payables - related parties	-	7	34	42	21	34
Sundry payables	633	333	95	633	333	95
Accrued leave pay	87	105	116	75	92	98
Accrued bonus	7	11	17	7	11	13
Trade accruals	18	16	111	8	7	40
Sundry accruals	169	87	11	-	-	-
Other sundry accruals - VAT	-	10	-	-	-	-
Accrued audit fees	10	10	13	3	3	4
Other accrued expenses	265	275	276	264	257	236
Deposits received	8	8	8	8	8	8
Other payables	5	5	7	5	5	7
Non-financial instruments:						
Amounts received in advance	123	123	123	123	123	123
VAT (flip receiver only)	96	37	-	96	37	-
	2 470	1 774	1 476	2 044	1 561	1 216

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

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

On August 2019 Denel resolved to sell the investment in hensoldt, they received an offer that lapsed in 2020. Subsequently in July 2021 Denel engaged the market for a possible disposal. Therefore this investment has been classified as held for sale for the years 2019, 2020 and 2021.

Assets and liabilities

	2022	2021	2020	2022	2021	2020
Property, plant and equipment	-	-	67	-	-	-
Other assets (Net)	201	190	111	56	56	56
	201	190	178	56	56	56

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

28. REVENUE

Assets and liabilities

	2022	2021	2020	2022	2021	2020
Contract revenue ^{1 and 2}	-	18	56	-	18	56
Sale of goods	1 247	2 167	2 573	1 180	2 008	2 373
Rental Income	140	130	181	140	130	181
	1 387	2 315	2 810	1 320	2 156	2 610

Revenue other than from contracts with customers

	2022	2021
Rental Income At a point in time	883	816
Over time	504	504
	1 387	1 320

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.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Transfer price between operating segments is set at cost plus 10.0% of segment revenue, and segment results include transfers between operating segments and these transfers are eliminated on consolidation.

Business segments

The group comprises the following main operating segments:

- Aerostructures: Denel Aerostructures SOC Ltd;
- Aerospace Systems: Denel Dynamics, Denel Overberg Test Range and Denel Asia Co LLC;
- Aviation: Denel Aviation; Turbmeca Africa (Pty) Ltd
- Land Solutions: Denel Land Systems, Denel Vehicle Systems (Pty) Ltd and LMT Holdings SOC Ltd (RF);
- Munitions: Pretoria Metal Pressings; and

The results of business units with revenue less than 10% (2020/21: 10%, 2019/20: 10%, 2018/19: 10%) of the group revenue are aggregated within an operating segment which products and services closest relates to that of the specific entity.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

28. REVENUE (continued)

	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R
Group - 2022							
Segment revenue	141	417	425	216	245	(57)	1 387
Revenue from external customers	138	417	408	215	207	1	1 386
Intergroup revenue	3	-	17	-	38	(58)	-
Contribution	10%	30%	30%	16%	18%	4%	100%
Segment operating profit/(loss)	(228)	(58)	(295)	(93)	(87)	19	(742)
Net finance income/(costs)	(12)	4	(196)	(12)	(35)	(114)	(365)
Share of profit in associated companies	-	-	-	-	-	86	86
Income tax expense	-	-	34	-	-	-	34
Net(loss)/profit for the year	(240)	(54)	(457)	(105)	(122)	(9)	(987)
Segment assets	888	781	2 124	472	2 067	196	6 528
Deferred tax assets	-	-	246	-	-	-	246
Total assets							6 774
Segment liabilities	1 551	350	4 798	442	937	(472)	7 606
Deferred tax liabilities	-	-	-	-	2	-	2
Total liabilities							7 608
Depreciation/amortisation i.r.o. segment assets		17	8	12	7	38	82
Significant non-cash items		-	24	130	-	-	154
Fair value adjustment		-	-	-	-	35	35

	Aerostructures	Aerospace Systems	Aviation	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R	R
Group - 2021								
Segment revenue	(16)	328	706	818	287	376	(188)	2 311
Revenue from external customers	(17)	327	703	808	284	187	3	2 295
Intergroup revenue	1	1	3	10	3	189	(191)	16
Contribution	(1)%	14 %	30 %	35 %	12 %	8 %	- %	99 %
Segment operating profit/(loss)	3	(125)	(28)	(450)	(185)	47	817	79
Net finance income/(costs)	(7)	(7)	11	(186)	(10)	(43)	-	(242)
Share of profit in associated companies	-	-	-	-	-	-	(30)	(30)
Income tax expense	-	-	-	42	-	6	-	48
Net(loss)/profit for the year	(4)	(132)	(17)	(594)	(195)	10	787	(145)
Segment assets	2	1 117	872	2 617	513	1 838	339	7 298
Deferred tax assets	-	-	-	197	-	-	-	197
Total assets								7 495
Segment liabilities		934	1 586	388	4 618	378	832	8 736
Deferred tax liabilities		-	-	-	-	-	2	2
Total liabilities								8 738
Capital expenditure		-	2	42	-	-	-	44
Impairment losses raised/(reversed)		-	-	5	-	-	-	5
Depreciation/amortisation i.r.o. segment assets		(3)	17	13	-	11	-	38
Significant non-cash items								
Fair value adjustment		-	-	-	-	93	-	93

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

28. REVENUE (continued)

Revenue by region

	2022	2021	2020	2022	2021	2020
Africa	7	118	107	7	117	103
Asia Pacific	255	548	566	255	548	566
Europe	120	89	188	120	77	155
Middle East	51	184	190	22	76	142
North America	8	15	37	-	-	-
South Africa	923	1 183	1 561	893	1 183	1 569
South America	2	5	5	2	5	5
USA	16	118	75	16	118	70
Other	-	26	-	-	26	-
	1 382	2 286	2 729	1 315	2 150	2 610

29. COST OF SALES

	2022	2021	2020	2022	2021	2020
Sale of goods						
Rendering of services	1 400	2 084	2 379	1 350	1 967	2 264
Manufactured goods:	-	-	1	-	-	-
Raw materials consumed	-	(160)	46	-	-	-
Employee costs	-	1	2	-	-	-
Depreciation and impairment	-	-	43	-	-	-
Manufacturing expenses	-	(75)	(278)	-	-	-
	1 400	1 850	2 193	1 350	1 967	2 264

30. OTHER OPERATING INCOME

	2022	2021	2020	2022	2021	2020
Administration and management fees received	-	3	16	-	14	16
Commissions received	-	-	1	-	-	-
Bad debts recovered	1	2	-	1	2	-
Foreign exchange gain/Loss	4	21	2	-	-	-
Unsettled Transactions Sundry revenue	-	12	-	-	-	-
Dividends Received	1	9	148	13	57	148
Other income	123	488	134	123	482	126
Other farming income	-	931	-	-	-	-
	129	1 466	301	137	555	290

31. OTHER OPERATING GAINS (LOSSES)

	2022	2021	2020	2022	2021	2020
Gains(losses) on disposals, scrappings and settlements						
Property, plant and equipment	-	14	(1)	-	(7)	(1)
Other financial liabilities	-	-	16	-	-	-
	-	14	15	-	(7)	(1)
Foreign exchange gains (losses)						
Net foreign exchange loss	(38)	(511)	(229)	(38)	(403)	(28)
Total other operating gains (losses)	(38)	(497)	(214)	(38)	(410)	(29)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

32. INVESTMENT INCOME

	2022	2021	2020	2022	2021	2020
Interest income						
Shareholders loan	-	-	24	-	-	-
Investments in financial assets:						
Bank and other cash	-	1	3	-	-	-
Other financial assets	12	28	162	10	28	157
Total interest income	12	29	189	10	28	157

33. FINANCE COSTS

	2022	2021	2020	2022	2021	2020
Non-current borrowings	-	-	12	-	-	-
Lease liabilities	-	7	4	-	-	-
Bank overdraft	-	-	8	-	-	-
Current borrowings	-	-	1	-	-	-
Late payment of tax (Tax authorities)	(6)	4	1	-	-	-
Unwinding of discount on provisions and other liabilities	-	-	44	-	-	-
Interest paid	383	491	703	381	484	695
Total finance costs	377	502	773	381	484	695

34. TAXATION

	2022	2021	2020	2022	2021	2020
Major components of the tax income						
Current						
Local income tax - current period	-	(6)	6	-	-	-
Current tax	-	1	-	-	1	-
	-	(5)	6	-	1	-
Deferred						
Originating and reversing temporary differences	(34)	(43)	(73)	-	-	-
	(34)	(48)	(67)	-	1	-

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

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

35. CASH GENERATED FROM OPERATIONS

	Group			Company		
	2022	2021	2020	2022	2021	2020
Loss before taxation	(1 025)	(476)	(1 872)	(935)	(1 029)	(1 365)
Adjustments for:						
Depreciation and amortisation	58	94	145	52	55	79
(Gains) losses on disposals, scrapplings and settlements of assets and liabilities	-	-	(15)	-	-	1
Gains on fair value adjustments	-	(7)	-	-	-	-
Impairment raised/reversed	12	70	-	14	79	-
Losses on foreign exchange	-	511	372	-	403	28
Income from equity accounted investments	(86)	82	(65)	-	-	(65)
Interest income	17	(25)	(189)	(10)	(25)	(157)
Finance costs	382	500	773	381	480	695
Fair value adjustments	(35)	(3)	-	(35)	(3)	-
Profit on derecognition of investment	-	(931)	-	-	-	-
Net impairments and movements in credit loss allowances	-	-	656	-	-	656
Foreign gains	(9)	(469)	-	(38)	(448)	-
Disposal of PPE	(2)	24	-	-	12	-
Movement in loan repayment	-	-	(859)	-	-	(1 912)
Movement in provisions	(10)	(88)	(431)	(8)	12	(26)
Changes in working capital:						
Inventories	288	457	384	244	314	295
Trade and other receivables	(272)	100	91	(152)	50	32
Contract assets	349	(229)	182	349	(276)	(92)
Other financial assets	-	-	(12)	-	-	(12)
Advance payments made	121	111	8	113	72	17
Loan receivable	(2)	-	-	-	-	-
Trade and other payables	649	445	(635)	483	345	(337)
Contract liabilities	(59)	215	90	(60)	89	1 322
Advanced payments received	-	-	(191)	-	-	(199)
	376	352	(1 568)	398	130	(1 040)

36. TAX PAID

	2022	2021	2020	2022	2021	2020
Balance at beginning of the year	11	4	7	-	(3)	-
Current tax for the year recognised in profit or loss	-	5	(6)	-	(1)	-
Balance at end of the year	(13)	(11)	(4)	-	-	3
	(2)	(2)	(3)	-	(4)	3

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. CAPITAL COMMITMENTS

	2022	2021	2020	2022	2021	2020
Approved and contracted for						
Property, plant and equipment	-	-	3	-	-	1
Land and buildings	-	-	2	-	-	-
Machinery and equipment	-	-	1	-	-	1
Work in progress	-	-	1	-	-	-
Investment properties	-	-	1	-	-	-
	-	-	8	-	-	2

38. CONTINGENT LIABILITIES

	2022	2021	2020	2022	2021	2020
Guarantees						
The following guarantees were issued by the group:						
Advance payment guarantees	-	-	-	-	1 740	2 716
Guarantees to banks for credit facilities of subsidiaries	-	-	-	-	-	-
Guarantees to local authorities	-	-	-	-	-	10
Performance guarantees	-	-	-	-	425	687
Other guarantees	-	-	-	-	145	109
Total of guarantees issued	-	-	-	-	2 310	3 522

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 Rxxm (2020/21: R42m, 2019/2020: R42). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims other than that which have already been provided. Details of some of the key issues are provided below:

The group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of contracts that were in progress and the loss of potential contracts, as well as the call up of related performance guarantees. There are ongoing arbitrations between the parties and indications are that the matters will be resolved. It is not possible at this stage to estimate the potential damages and legal costs involved as the matters are sub judice.

Contract losses

One of the group's subsidiaries is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately 2020/21: R2.5bn (2019/20: R2.5bn, 2018/18: R2.5bn) and an estimated contract loss of approximately R1.4bn (2021/20: R1.4bn). This loss has not been raised as a provision following a written commitments received from the shareholder stating its support including financial for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country. During 2020 various onerous terms and conditions to the contract was renegotiated to mitigate risk to the company and shareholder.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. CONTINGENT LIABILITIES (continued)**Site restoration**

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 2021/22: 15% (2020/21: 15%, 2019/20: 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 2021/2022: R38m, (2020/2021: R37m; 2019/20: R31.6m,)) for both, group and company.

Counter trade

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

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

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

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations. The group issued guarantees to the value of R93m (2017/18: R111m, 2016/17: R75m) to enable the contracting country to raise penalties on non-fulfilment of countertrade obligations.

The group has entered into local defence contracts which require the group to impose countertrade obligations in favour of SA on all imported content. The group has, therefore, entered into back-to-back agreements with the suppliers to ensure that this obligation is offset. The group received bank guarantees from all the said suppliers which were ceded to the client.

The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

The table on the next page summarises the group's countertrade position.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. CONTINGENT LIABILITIES (continued)

	2022			2021			2020		
	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total	Export contracts	Local defense contracts	Total
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Counter trade obligation									
Total countertrade obligation	-	-	-	9 292	29	9 321	10 616	9 684	20 301
Obligation discharged	-	-	-	(7 582)	(29)	(7 611)	(8 350)	(2 623)	(10 973)
Outstanding obligation	-	-	-	1 710	-	1 710	2 267	7 061	9 328
To be settled by third party	-	-	-	-	-	-	-	(4 558)	(4 558)
Net obligation of the group	-	-	-	1 710	-	1 710	2 267	2 503	4 770
Penalties									
Maximum penalty for non-compliance	-	-	-	14	205	219	-	-	-
Third party obligation	-	-	-	-	-	-	-	-	-
Net group exposure	-	-	-	14	205	219	-	-	-
Guarantees issued									
Group issued	-	-	-	66	117	183	-	-	-
Third party guarantees	-	-	-	-	28	28	-	-	-
	-	-	-	66	145	211	-	-	-
Provision to settle obligation	-	-	-	1	-	1	-	-	-

39. RELATED PARTIES

Relationships

Ultimate holding company

Holding company

Subsidiaries

Associates

Major national public entities National government

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

Members of key management

Denel SOC Ltd and subsidiaries

Denel SOC Ltd

Refer to note9

Refer to note10

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

39. RELATED PARTIES (continued)

2022	Group related parties balances								Company related parties balances							
	Denel SOC Ltd & Subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties	Denel SOC Ltd & 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	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Advance payments made	24	17	-	-	-	-	-	-	24	17	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2 073	-	-	-	-	-	-	-	2 073	-	-
Allowance for doubtful debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends received	7	-	-	3	-	-	-	-	7	-	-	3	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	2 025	-	-	-	-	-	-	-	2 025	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	3	-	-	-	-	-	-	-	3	-	-
Guarantees issued to third parties on behalf of related parties	-	4 000	-	47	-	-	-	-	-	4 000	-	43	-	-	-	-
Interest paid	32	-	-	-	-	-	-	-	32	-	-	-	-	-	-	-
Interest received	42	-	-	-	-	-	-	-	42	-	-	-	-	-	-	-
Lease payments	3	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding balances payable	304	9	-	7	4	27	13	1	304	9	-	7	4	27	13	-
Outstanding balances receivable	1 324	2	-	44	8	53	13	-	1 319	2	-	44	8	53	13	1
Penalties paid	-	-	-	-	-	8	-	-	-	-	-	-	-	8	-	-
Purchase of goods	3	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-
Purchase of properties and other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of goods	9	-	-	12	-	13	119	-	9	-	-	12	-	13	119	-
Services received	21	-	-	-	-	-	8	-	21	-	-	-	-	-	8	-
Services rendered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1 769	4 028	-	111	12	4 202	153	1	1 764	4 028	-	111	12	4 202	153	1

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

39. RELATED PARTIES (continued)

2021	Denel SOC Ltd and subsidiaries								Company related parties							
	Denel SOC Ltd & Subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties	Denel SOC Ltd & 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	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Advance payments made	41	15	-	-	-	-	-	-	100	-	-	-	-	-	9	-
Advance payments received	-	-	-	-	-	2 008	-	-	72	-	-	-	1	2 009	-	-
Allowance for doubtful debts	-	-	-	-	-	-	5	-	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	1	-	-	26	-	-	85	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	1 426	-	-	26	-	-	-	-	2 027	16	19
Allowance for doubtful debts	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Guarantees issued to third parties by related parties	1	-	-	-	-	-	-	-	-	4 000	-	67	1	4	-	-
Interest paid	3	-	-	-	-	-	1	-	65	-	-	-	-	-	-	-
Interest received	25	-	-	-	-	-	-	-	84	-	-	-	-	-	-	-
Lease payments	14	-	-	-	-	-	-	-	128	-	-	-	-	-	-	-
Lease receivables	1	-	-	-	-	-	-	-	10	-	-	-	-	-	24	72
Outstanding balances payable	227	20	-	-	-	1	-	2	1 097	-	-	2	4	2	10	5
Outstanding balances receivable	436	160	-	-	-	48	4	-	2 090	-	-	24	43	8	45	25
Penalties paid	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-
Purchase of goods	20	13	-	-	-	-	-	-	51	-	-	-	2	-	2	-
Purchase of properties and other assets	42	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of goods	1	-	-	-	-	3	469	-	13	-	-	-	48	321	1 141	152
Services received	51	3	-	-	-	-	1	8	255	-	-	-	-	-	107	-
Services rendered	8	-	-	-	-	-	76	-	191	-	-	-	-	-	-	-
	870	211	-	-	-	3 487	557	10	4 209	4 000	-	178	99	4 374	1 355	407

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. RELATED PARTIES (continued)

2020	Group related parties balances								Company related parties balances							
	Denel SOC Ltd & Subsidiaries	Subsidiaries	Joint ventures	Associated companies	Post employment funds	National government	Major national public entities	Other related parties	Denel SOC Ltd & 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	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Advance payments made	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advance payments received	24	-	31	1	-	2 009	132	-	-	-	-	-	-	-	-	-
Allowance for doubtful debts	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-
Amounts written off during the period	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends received	-	26	-	85	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	26	-	-	2 027	27	-	-	-	-	-	-	275	104	-
Guarantees issued to third parties by related parties	-	-	-	-	-	4	-	-	200	-	-	-	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	4 000	-	68	-	-	-	-	19	-	-	-	-	-	-	-
Interest paid	76	-	12	-	-	-	16 843	-	-	-	-	-	-	-	-	-
Interest received	87	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-
Lease payments	54	-	10	-	-	-	-	-	13	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding balances payable	282	36	683	4	-	9	8	-	339	2	-	-	-	27	-	-
Outstanding balances receivable	767	40	1	45	-	8	31	-	90	-	-	-	-	-	-	-
Purchase of goods	9	86	2	2	-	-	2	20	10	-	-	283	-	-	-	-
Sale of goods	25	147	-	49	-	367	723	-	4	-	-	-	-	-	-	-
Sale of properties and other assets	1	-	-	-	-	-	-	-	12	-	-	-	-	-	-	-
Services received	219	14	94	-	-	106	13	-	172	2	-	-	-	-	-	-
Services rendered	8	-	5	-	-	-	1	-	5	-	-	-	-	1	-	-
Transfers under licence agreements	1 570	4 351	866	255	-	4 530	944	20	-	-	-	-	-	-	-	-
	3 139	8 703	1 730	509	-	9 060	18 724	48	48	48	48	48	48	48	48	48

Compensation to directors and other key management

	2022	2021	2020	2022	2021	2020
Short-term employee benefits	309	418	439	309	400	416

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. DIRECTORS' EMOLUMENTS

The below emoluments were paid to the directors' holding a prescribed office during the year. All amounts are rounded to the nearest million.

Executive

2021								
Amounts paid or accrued to executives of the group:	Salaries	Pension fund contribution	Medical aid contribution	Other	Company contributions	Total 2022	Total 2021	Total 2020
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive director								
Mr D Du Toit ¹	-	-	-	-	-	-	1 271	5 000
Ms C le Grange ²	-	-	-	-	-	-	3 278	1 970
Mr T Sadiki ³	-	-	-	-	-	-	2 159	-
Mr W Hlakoane ⁴	2 377	90	107	235	159	2 968	-	-
Ms T Sabela ⁵	1 304	53	135	133	93	1 718	-	-
Sub-total	3 681	143	242	368	252	4 686	6 708	6 970
Prescribed officers								
Ms VQ Qinga	-	-	-	-	-	-	-	1 035
Mr T Klenyhans	-	-	-	-	-	-	-	3 616
Mr A Nqwaba	-	-	-	-	-	-	-	1 429
Mr WA de Klerk	-	-	-	-	-	-	-	560
Ms Ngema	1 786	75	90	194	133	2 277	2 526	2 175
Mr M Kgobe	-	-	-	-	-	-	2 607	-
Mr MX Makhathini	-	-	-	-	-	-	2 897	-
Total	5 467	218	332	562	385	6 963	14 738	15 785

1 Appointed as GCEO effective January 2019 and resigned August 2020

2 Appointed as GCFO effective 9 September 2019 and resigned March 2021

3 Appointed as Interim GCEO August 2020 and contract expired in February 2021

4 Appointed as Interim GCEO March 2021

5 Appointed as Interim GCFO March 2021

Non-Executive Directors

Fees for acceptance of office			
	2022	2021	2020
	R'000	R'000	R'000
Mrs GT Serobe	1 042	240	389
Mr TH Magazi	276	326	751
Lt Gen. (rtd) TT Matanzima	231	105	326
Mr MM Mnisi	218	161	269
Ms AMSS Mokgabudi	213	-	-
Ms MMT Ramano	21	-	-
Sub-total	2 001	832	1 735

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

Overview

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

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

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

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

The roles and responsibilities of the Audit committee include:

- Approval of all counter parties;
- Approval of new instruments;
- Approval of foreign exchange transaction company policy;
- Approval of the investment policy;
- Approval of corporate treasury policy and procedure manual; and
- Recommend to the board for approval of the long-term funding requirements.

The Audit committee is assisted in its oversight role by the internal audit department, who undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit committee.

41.1 Credit risk

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

Receivables from customers

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

Financial instruments managed by the group's treasury function

The Finance and Investment Committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. Counterparties are assessed based on their official Fitch ratings. Counterparties are approved by the Finance and Investment committee. Various rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with certain counterparties, usually banks with F1 and F1 + short term ratings, AA long- term ratings and a minimum of R2bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1 + rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the GCFO.

Credit exposure and concentration of credit risk

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

Group	2022			2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	R	R	R	R	R	R	R	R	R
Trade receivables¹	256	331	587	202	311	513	152	295	447
Government and related units	199	14	213	182	170	352	128	50	178
Non-government units	57	317	374	20	141	161	24	245	269
Sundry receivables¹	529	18	547	524	-	524	346	1	347
Government and related units	504	-	504	505	-	505	340	-	340
Non-government units	25	18	43	19	-	19	6	1	7
Interest receivables¹	-	-	-	-	-	-	1	-	-
Government and related units	-	-	-	-	-	-	1	-	-
Non-government units	-	-	-	-	-	-	-	-	-
Loans and receivables (refer note)	584	-	584	1 014	-	1 014	1 045	-	1 045
Government and related units	584	-	584	1 014	-	1 014	1 045	-	1 045
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits²	584	32	616	509	6	515	552	16	568
Government and related units	42	-	42	71	-	71	70	-	70
Non-government units	440	32	472	438	6	444	482	16	498
	1 851	381	2 232	2 249	317	2 566	2 096	312	2 408

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

Company	2022			2021			2020		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	R	R	R	R	R	R	R	R	R
Trade receivables¹	256	331	587	119	209	328	379	313	692
Government and related units	199	14	213	118	68	186	101	37	138
Non-government units	57	317	374	1	141	142	278	276	554
Sundry receivables¹	529	18	547	17	-	17	262	-	262
Government and related units	504	-	504	1	-	1	25	-	25
Non-government units	25	18	43	16	-	16	237	-	237
Interest receivables¹	-	-	-	11	-	11	340	4	344
Government and related units	-	-	-	11	-	11	149	-	149
Non-government units	-	-	-	-	-	-	191	4	195
Loans and receivables (refer note)	584	-	584	361	-	361	590	-	590
Government and related units	584	-	584	361	-	361	590	-	590
Non-government units	-	-	-	-	-	-	-	-	-
Cash and short-term deposits²	479	32	511	363	6	369	385	16	401
Government and related units	42	-	42	35	-	35	43	-	43
Non-government units	437	32	469	328	6	334	342	16	358
	1 848	381	2 229	871	215	1 086	1 956	333	2 289

1 Refer note 11.

2 Refer note 20.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Ageing

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

	2022				2021				2020			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R	R	R	R	R	R	R	R	R	R	R	R
Trade receivables¹	926	3	(80)	849	376	268	(93)	551	1 167	51	(51)	1 167
Not past due	37	3	(3)	37	121	61	(37)	145	398	-	-	398
Group												
Less than 30 days	198	-	-	198	22	23	(3)	42	61	-	-	61
30 to 60 days	6	-	-	6	37	14	(1)	50	50	-	-	50
61 to 90 days	19	-	-	19	11	5	-	16	65	9	(9)	65
More than 90 days	666	-	(77)	589	332	185	(105)	412	886	49	(49)	886
Sundry receivables¹	504	978	(978)	504	85	1	(1)	85	130	-	-	130
Not past due, not impaired	501	978	(978)	501	62	-	-	62	124	-	-	124
Past due												
Less than 30 days	(2)	-	-	(2)	18	-	-	18	6	-	-	6
More than 90 days	5	-	-	5	5	1	(1)	5	-	-	-	-
Interest receivables¹	-	-	-	-	-	-	-	-	1	-	-	1
Not past due, not impaired	-	-	-	-	-	-	-	-	1	-	-	1
Past due												
Cash and short-term deposits²	482	-	-	482	592	-	-	592	1 269	-	-	1 269
Not past due, not impaired	479	-	-	479	592	-	-	592	1 269	-	-	1 269
More than 90 days	3	-	-	3	-	-	-	-	-	-	-	-
	1 912	981	(1 058)	1 835	1 200	289	(147)	1 342	2 860	58	(58)	2 860

1 Refer note 11.

2 Refer note 20.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Ageing

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

	2022				2021				2020			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	R	R	R	R	R	R	R	R	R	R	R	R
Trade receivables¹	926	3	(80)	849	376	268	(93)	551	1 167	51	(51)	1 167
Not past due	37	3	(3)	37	78	60	(3)	135	258	-	-	258
Company												
Less than 30 days	198	-	-	198	16	22	(3)	35	33	-	-	33
30 to 60 days	6	-	-	6	31	14	-	45	16	-	-	16
61 to 90 days	19	-	-	19	9	5	-	14	54	9	(9)	54
More than 90 days	666	-	(77)	589	242	167	(87)	322	806	42	(42)	806
Sundry receivables¹	499	978	(978)	499	53	-	-	53	89	-	-	89
Not past due, not impaired	501	978	(978)	501	33	-	-	33	82	-	-	82
Past due												
Less than 30 days	(2)	-	-	(2)	17	-	-	17	6	-	-	6
More than 90 days	-	-	-	-	3	-	-	3	1	-	-	1
Interest receivables¹	-	-	-	-	-	-	-	-	1	-	-	1
Not past due, not impaired	-	-	-	-	-	-	-	-	1	-	-	1
Past due												
Cash and short-term deposits²	479	-	-	479	465	-	-	465	1 269	-	-	1 269
Not past due, not impaired	479	-	-	479	465	-	-	465	1 269	-	-	1 269
	1 904	981	(1 058)	1 827	894	268	(93)	1 069	2 526	51	(51)	2 526

1 Refer note 11.

2 Refer note 20.

41.2 Liquidity risk

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive cost. This risk may arise when there are mismatches between receipts and payments. As well as when 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 R4.4nm (2017/18:R3.4bn) to raise borrowings. These guarantees expire on 30 September 2023.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Surplus funds are deposited in liquid assets (i.e. negotiable certificates or deposits and call deposits) (refer note).

	2022	2021	2020	2022	2021	2020
SA rand (ZARm)	-	194	139	-	194	139
US dollar (US\$m)	-	-	-	-	-	-

Undrawn credit facilities

The credit banking facilities are unsecured, bear interest at a rate linked to prime and are subject to annual review. The facilities are in place to ensure liquidity.

GROUP	Contractual undiscounted cash flows					
	Carrying amount	Total cash flow	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R	R	R	R	R	R
2022						
Interest bearing loans and borrowings	1 787	1 786	-	1 492	294	-
Trade and other payables	1 769	1 506	150	1 226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2 792	2 792	1 145	864	783	-
	6 348	6 084	1 295	3 582	1 208	-
2021						
Interest bearing loans and borrowings	522	522	78	332	108	4
Trade and other payables	2 445	2 445	413	2 032	-	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2 311	2 310	43	852	1 277	138
	5 278	5 277	534	3 216	1 385	142
2020						
Interest bearing loans and borrowings	771	754	238	517	-	-
Trade and other payables	-	-	-	-	-	-
Derivative financial liabilities	102	102	-	15	87	-
Guarantees	5 623	5 499	1 297	3 696	506	-
	6 496	6 355	1 535	4 228	593	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

COMPANY	Contractual undiscounted cash flows					
	Carrying amount	Total cash flow	Less than three months	Between three and twelve months	Between one and five years	More than five years
	R	R	R	R	R	R
2022						
Interest bearing loans and borrowings	1 787	1 786	-	1 492	294	-
Trade and other payables	1 769	1 506	149	1 226	131	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	2 792	2 792	1 145	864	783	-
	6 348	6 084	1 295	3 582	1 208	-
2021						
Interest bearing loans and borrowings	3 412	3 407	194	3 033	180	-
Trade and other payables	1 434	1 422	577	745	-	-
Derivative financial liabilities	10	10	-	10	-	-
Guarantees	-	-	-	-	-	-
	4 856	4 839	771	3 788	180	-
2020						
Interest bearing loans and borrowings	3 168	3 168	829	2 339	-	-
Trade and other payables	-	-	-	-	-	-
Derivative financial liabilities	2	2	2	1	-	-
Guarantees	-	-	-	-	-	-
	3 170	3 170	831	2 340	-	-

41.3 Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect the group's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Entities

The divisions and subsidiaries are responsible for the preparation and presentation of market risk information as it affects the relevant entity. Information will be submitted to treasury where it is monitored and further analysed to be used in the decision making process. In certain instances an entity will prepare and use market risk information for its own purposes.

Treasury

Treasury is responsible for reporting to the Audit committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the GFD and executive committee on a weekly and monthly basis respectively.

A significant element of the market risk encountered arises from financial instruments that are managed centrally within the Treasury function of the group. These include more complex instruments used for hedging purposes.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk

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

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

	2022	2021	2020	2022	2021	2020
At the reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:						
Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	69	46	22	69	46	6
Cash managed on behalf of associated companies	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	2
Loans and borrowings	281	267	2	281	267	-
Loans and other receivables	473	692	-	473	692	-
Treasury asset	-	-	-	-	-	-

Fixed rate instruments

Fair value sensitivity analysis for fixed rate instruments

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

Variable rate instruments

Bank overdraft	-	-	-	-	-	-
Cash and short-term deposits	323	323	368	323	323	348
Loans and borrowings	4	10	144	4	10	144
Loans and other receivables	-	-	-	-	-	-
Treasury asset	-	-	-	-	-	-

Cash flow sensitivity analysis for variable rate instruments

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

Cash and cash equivalents

Currency risk

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

Net gains/(loss) on financial instruments are disclosed in notes 29, 30 and 31.

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

	2022	2021	2020	2022	2021	2020
	USD	USD	USD	EUR	EUR	EUR
	m	m	m	m	m	m
GROUP						
Assets	50	9	31	-	-	-
Trade receivables	50	9	4	-	-	-
Controlled foreign currency accounts (CFC)	-	-	8	-	-	-
Firm commitments (export revenue)	-	-	19	-	-	-
Liabilities	26	(2)	(12)	(1)	(1)	-
Trade payables	26	(2)	2	(1)	(1)	-
Firm commitments (import)	-	-	(14)	-	-	-
Gross balance sheet exposure	76	7	19	(1)	(1)	-
Forecast transactions (purchases)	-	-	(14)	-	-	-
Gross balance sheet exposure	76	7	(1)	(1)	(1)	-
Export revenue	-	-	(19)	-	-	-
Imports	-	-	(14)	-	-	-
Net exposure	76	7	(34)	(1)	(1)	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	2022	2021	2020	2022	2021	2020
	USD	USD	USD	EUR	EUR	EUR
	m	m	m	m	m	m
COMPANY						
Assets	50	5	10	-	-	-
Trade receivables	50	5	2	-	-	-
Controlled foreign currency accounts (CFC)	-	-	8	-	-	-
Liabilities	26	(2)	(12)	(1)	(1)	-
Trade payables	26	(2)	2	(1)	(1)	-
Firm commitments (import)	-	-	(14)	-	-	-
Gross balance sheet exposure	76	3	(2)	(1)	(1)	-
Forecast transactions (purchases)	-	-	(14)	-	-	-
Gross balance sheet exposure	76	3	(16)	(1)	(1)	-
Imports	-	-	(14)	-	-	-
Net exposure	-	-	(14)	-	-	-

Strengthening of the Rand

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

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

Foreign Currency Derivatives

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

	2022			2021			2020	
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value	Local currency	Fair value
		R	R		R	R	R	R
Group								
Revenue contracts								
Euro (EUR)	1	9	9	4	61	65	-	-
US Dollar (USD)	-	(3)	(3)	-	-	-	-	-
		6	6	4	61	65	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

MATURITY TABLE

Group
Foreign currency
derivatives
Revenue contracts

	2021				2020				2019			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Euro (EUR)	-	-	-	-	2 132 266	-	-	2 132 266	15 011 978	-	15 011 978	8 785 769
Sterling (GBP)	-	-	-	-	21 521	-	-	21 521	21 521	-	-	21 521
Switzerland (CHF)	-	-	-	-	151 290	-	-	151 290	2 450 046	-	-	2 450 046
US Dollar (USD)	-	-	-	-	56 535 296	979 355	-	57 514 651	58 578 490	-	-	58 578 490
Purchase contracts												
Euro (EUR)	-	-	-	-	4 507 499	-	-	4 507 499	9 783 591	-	-	9 783 591
Sterling (GBP)	-	-	-	-	284 089	-	-	284 089	1 027 807	-	-	1 027 807
Switzerland (CHF)	-	-	-	-	41 778	-	-	41 778	91 378	-	-	91 378
US Dollar (USD)	-	-	-	-	332 967	-	-	332 967	22 088 741	-	-	22 088 741

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2022				2021				2020			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
	R	R	R	R	R	R	R	R	R	R	R	R
Company Foreign currency derivatives												
Revenue contracts												
Euro (EUR)	-	-	-	-	921 907	-	-	921 907	11 907 253	-	-	11 907 253
Switzerland (CHF)	-	-	-	-	151 290	-	-	151 290	2 450 046	-	-	2 450 046
US Dollar (USD)	-	-	-	-	29 549 972	-	-	29 549 972	39 503 414	-	-	39 503 414
Purchase contracts												
Euro (EUR)	-	-	-	-	3 722 203	-	-	3 722 203	8 756 809	-	-	8 756 809
Sterling (GBP)	-	-	-	-	284 089	-	-	284 089	1 027 807	-	-	1 027 807
Switzerland (CHF)	-	-	-	-	41 778	-	-	41 778	91 378	-	-	91 378
US Dollar (USD)	-	-	-	-	-	-	-	-	21 968 653	-	-	21 968 653

Firm commitments

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

Denel view the USD, GBP and EUR as common currencies.

Foreign currency notional amount (m)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2022			2021			2020		
	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R	Foreign currency notional amount R	Local currency R	Fair value R
Group									
FOREIGN CURRENCIES									
Export transactions									
Euro (EUR)	-	-	-	-	-	-	1	10	11
Sterling (GBP)	-	-	-	-	-	-	5	98	103
US Dollar (USD)	-	18	269	269	-	269	24	167	191
	-	18	18	269	-	269	30	275	305
Firm commitments relating to foreign exchange contracts	-	-	-	-	-	-	-	-	-
Euro (EUR)	-	-	-	-	-	-	-	-	-
Sterling (GBP)	-	-	-	-	-	-	-	-	-
Switzerland (CHF)	-	-	-	-	-	-	-	-	-
US Dollar (USD)	-	-	-	-	-	-	-	-	-
Firm commitments relating to foreign exchange options									
Import transactions									
Euro (EUR)	-	8	8	-	-	-	4	-	4
US Dollar (USD)	2	34	34	-	-	-	-	-	-
	2	42	42	-	-	-	4	-	4

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2021				2020				2019			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total
Firm commitments relating to foreign exchange contracts												
Euro (EUR)	-	-	-	-	-	-	-	-	-	-	-	-
Sterling (GBP)	-	-	-	-	-	-	-	-	-	-	-	-
Switzerland (CHF)	-	-	-	-	-	-	-	-	-	-	-	-
US Dollar (USD)	-	-	-	-	-	-	-	-	-	-	-	-

Firm commitments relating to foreign exchange options
Export transactions
Firm commitments relating to foreign exchange contracts

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

Import transactions

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

Commodity risk

1. 2016/17: Export contracts: €381 014 matures within one year.

2. 2016/17: Exports contracts: £27 800 matures within one year.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

41.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

GROUP

2022

Cash and cash equivalents

Financial assets

Loans and receivables

Financial assets at fair value through profit or loss

Trade and other receivables

Financial liabilities

Other financial liabilities

Net financial assets/(liabilities)

2021

Cash and cash equivalents

Financial assets

Loans and receivables

Financial assets at fair value through profit or loss

Trade and other receivables

Financial liabilities

Interest bearing borrowings

Net financial assets/(liabilities)

2020

Cash and cash equivalents

Financial assets

Loans and receivables

Financial assets at fair value through profit or loss

Trade and other receivables

Financial liabilities

Interest bearing borrowings

Other financial liabilities

Net financial assets/(liabilities)

Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
R	R	R	R	R
135	-	-	135	132
945	-	-	945	895
4 401	-	-	4 401	4 401
282	-	56	338	130
5 763	-	56	5 819	5 558
(1 316)	1	-	(1 315)	-
(1 316)	1	-	(1 315)	-
4 447	1	56	4 504	5 558
369	-	-	369	40
591	101	-	692	531
-	-	-	-	-
480	-	-	480	135
1 440	101	-	1 541	706
-	-	-	-	-
1 440	101	-	1 541	706
1 194	-	-	1 194	1 194
-	550	178	178	178
-	-	57	57	57
1 461	817	-	2 278	2 278
2 655	1 367	235	4 257	4 257
-	143	-	143	143
-	-	-	-	(41)
-	143	-	143	102
2 665	1 510	235	4 400	4 359

4.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount	Fair value
	R	R	R	R	R
2022					
Cash and cash equivalents	135	-	-	135	132
Financial assets					
Loans and receivables	940	-	-	940	895
Financial assets at fair value through profit or loss	4 401	-	-	4 401	4 401
Trade and other receivables	282	-	56	338	130
	5 758	-	56	5 814	5 558
Financial liabilities					
Interest bearing borrowings	(1 316)	-	-	(1 316)	-
	(1 316)	-	-	(1 316)	-
Net financial assets/(liabilities)	4 442	-	56	4 498	5 558
2021					
Cash and cash equivalents	369	-	-	369	369
Financial assets					
Loans and receivables	591	101	-	692	531
Financial assets at fair value through profit or loss	-	-	-	-	-
Trade and other receivables	480	-	-	480	135
	1 440	101	-	1 541	706
Financial liabilities					
Interest bearing borrowings	-	1	-	1	1
	-	1	-	1	1
Net financial assets/(liabilities)	1 440	102	-	1 542	707
2020					
Cash and cash equivalents	1 117	-	-	1 117	460
Financial assets					
Loans and receivables	-	(1)	-	(1)	(1)
Financial assets at fair value through profit or loss	-	-	189	189	189
Trade and other receivables	1 477	-	-	1 477	1 477
	2 594	(1)	189	2 782	2 125
Financial liabilities					
Interest bearing borrowings	-	(97)	-	(97)	(97)
	-	(97)	-	(97)	(97)
Net financial assets/(liabilities)	2 594	(98)	189	2 685	2 028

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Determination of fair values

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Various valuation techniques and assumptions are utilised for the purpose of calculating fair value. The group does not hold any financial instruments traded in an active market, except for the investment in listed equity instruments. Fair value is determined using valuation techniques as outlined below. Where possible, inputs are based on quoted prices and other market determined variables. The calculation of fair value requires various inputs into the valuation methodologies used.

The source of the inputs used affects the reliability and accuracy of the valuations. Significant inputs have been classified into the hierarchical levels in line with IFRS 13, as shown below.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 19.1. During the year there were no transfers between any of the levels of fair value measurements. Transfers between levels are considered to have occurred at the date of the event or change in circumstances.

Financial instrument	Valuation method	Significant inputs	Fair value hierarchy of inputs
Investment properties			Level 3
Derivative financial assets	Refer note 1.5.4.	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 rates, forward contract rates, market commodity prices.	Level 2
Loans and borrowings	Refer note 1.5.4.	Refer note 1.5.4.	Level 3
Trade and other payables	Refer note 1.5.4. **	Refer note 1.5.4. **	Level 2
Trade and other receivables	Refer note 1.5.4. *	Refer note 1.5.4. *	Level 2
Financial liabilities			
Derivative financial liabilities	Refer derivative financial assets in this table.	Refer derivative financial assets in this table.	Level 2
Loans and borrowings	Refer note 1.4.4.	Refer note 1.4.4.	Level 2
Trade and other payables	Refer note 1.4.4. *	Refer note 1.4.4. *	Level 2

All other financial assets and liabilities carrying amount approximates fair value. The categorisation of each class of financial asset and liability, including their fair values, are included below:

* The fair value of these instruments approximates their carrying value, due to their short-term nature.

** The carrying value is considered to reflect its fair value.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

GROUP	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	R	R	R	R	R	R
2022						
Assets measured at fair value						
Cash and cash equivalents	132	135	90	42	-	132
Assets not measured at fair value						
Trade and other receivables	130	130	2	128	-	130
	262	265	92	170	-	262
Loans and receivables	(114)	(113)	(502)	389	-	(113)
Liabilities measured at fair value						
Loans and borrowings	(1 404)	(1 404)	(1 180)	(224)	-	(1 404)
	(1 518)	(1 517)	(1 682)	165	-	(1 517)
Liabilities not measured at fair value						
	(473)	(473)	(36)	(473)	-	(473)
	(1 991)	(1 991)	(1 718)	(273)	-	(1 991)
Net value	(1729)	(1725)	(1626)	(102)	-	(1728)
2021						
Investment properties	844	863	-	-	863	863
Assets measured at fair value						
Cash and cash equivalents	545	545	-	545	-	545
Assets not measured at fair value						
Trade and other receivables	229	229	-	229	-	229
	774	774	-	774	-	774
Other financial liabilities	(97)	(97)	-	-	(97)	(97)
Liabilities measured at fair value						
Loans and borrowings	(3 075)	(3 075)	-	-	(3 075)	(3 075)
	(3 172)	(3 172)	-	-	(3 172)	(3 172)
Liabilities not measured at fair value						
Net value	(1 554)	(1 535)	-	774	(2 309)	(1 535)
2020						
Investment properties	871	859	-	-	859	859
Other financial assets	190	188	-	-	188	188
Assets measured at fair value						
Cash and cash equivalents	1 194	425	-	425	-	425
Assets not measured at fair value						
Trade and other receivables	1 461	507	-	507	-	507
	2 845	1 120	-	932	188	1 120
Loans and receivables	(2 384)	(319)	(753)	(4)	-	(757)
Other financial liabilities	(143)	(144)	-	(144)	-	(144)
Liabilities measured at fair value						
Loans and borrowings	(3 472)	-	-	-	-	-
Trade and other payables	(2 784)	(1 418)	-	(1 029)	-	(1 029)
	(8 783)	(1 881)	(753)	(1 177)	-	(1 930)
Liabilities not measured at fair value						
Net value	(5 067)	98	(753)	(245)	1 047	49

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

42. GOING CONCERN

Denel (SOC) Ltd annual financial statements for the year ended 31 March 2022 have been prepared on a going concern basis. In terms of International Accounting Standard 1 Presentation of Financial Statements (IAS 1) the directors are required to assess the entity's ability to continue as a going concern for the foreseeable future considering all available information, which should be at least, but is not limited to twelve months from the balance sheet date. The board assessed the Denel group's ability to continue as a going concern in the foreseeable future by performing the following:

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

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

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

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

43. POST BALANCE SHEET SUBSEQUENT EVENTS

Funding

Denel Medical Benefit Trust

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

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

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

Shareholder announcement for funding

Following Denel submission of its turnaround plan in June 2022, in October 2022, the Shareholder announced its intention to recapitalise Denel by R3.4bn subject to the implementation of the sale of non-core assets.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

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

Governance

Disposal gear ratio a division of Denel Vehicle Systems (Pty) Ltd

DVS was acquired by Denel in 2015 from BAE Systems and DGD Technologies. DGR is a trading business unit within DVS.

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

As part of its turnaround and funding strategy, and in line with Denel's group objectives, Denel has identified the need for the re-alignment and consolidation of the Denel Landward business and measured the various areas of its business against the accepted criteria for the determination of core / non-core businesses. DGR meets none of the identified core criteria, resulting in the decision to exit DGR. In terms of section 54(2)(d) of the Public Finance Management Act 1 of 1999 ("PFMA") Denel submitted a request for approval from its Shareholder in October 2022.

Denel Aerostructures SOC Ltd liquidation order

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

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

Saab and SME Infratech liquidation application

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

	Group			Company		
Figures in Rand million	2022	2021	2020	2022	2021	2020

43. POST BALANCE SHEET SUBSEQUENT EVENTS (CONTINUED)

Operations

Non-payment of salary and related payments

Since April 2020, Denel has been unable to pay full salaries to its employees, pension fund contributions and other statutory obligations. During the course of the financial year and subsequent months, Denel has received several court orders and writ of executions in respect of outstanding salaries to its employees. In July 2022, Denel was able to pay outstanding salaries to all its employees and pension fund contributions. Denel is still in payment plan negotiations in respect to pension fund interest obligations and amounts outstanding to the South African Revenue Services (SARS).

Guarantees

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

44. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure

Opening balance prior period error

97	169	136	89	163	133
----	-----	-----	----	-----	-----

Prior period adjustment

10	(89)	-	10	-	-
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Fruitless and wasteful expenditure - relating to prior year

1	-	4	1	(86)	4
---	---	---	---	------	---

Fruitless and wasteful

2	-	-	2	-	-
---	---	---	---	---	---

expenditure - relating to current year

Less: Amount resolved

28	17	29	28	12	26
----	----	----	----	----	----

Less: Amounts transferred to receivables for recovery

(1)	-	-	(1)	-	-
-----	---	---	-----	---	---

Fruitless and wasteful expenditure awaiting resolution

137	97	169	129	89	163
------------	-----------	------------	------------	-----------	------------

Analysis of current year's fruitless and wasteful expenditure

Interest and penalties charged

5	1	26	5	1	24
---	---	----	---	---	----

Penalties on late deliveries and late payments

23	13	4	23	7	3
----	----	---	----	---	---

Regulatory and statutory compliance

2	3	3	2	4	3
---	---	---	---	---	---

OTHER

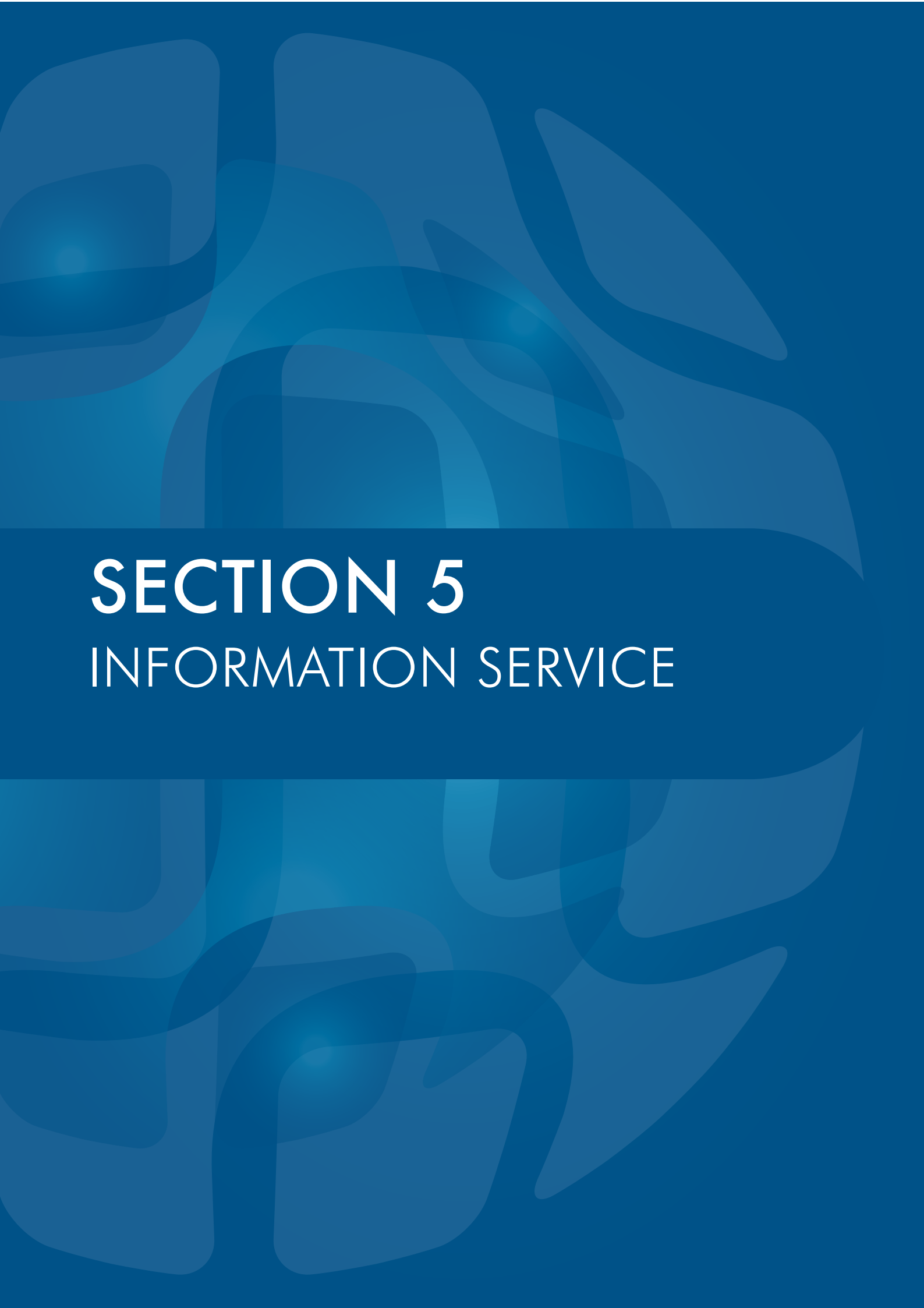
(5)	-	-	(5)	-	-
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Fruitless and wasteful expenditure awaiting resolution

25	17	33	25	12	30
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NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

	Group			Company		
Figures in Rand million	2022	2021	2020	2022	2021	2020
45. IRREGULAR EXPENDITURE						
Opening balance at 1 April	3 240	3 170	2 877	1 834	1 811	1 554
Deviations from the procurement process not adequately approved	-	-	-	-	9	-
Suppliers not registered on the central supplier database	-	2	-	-	-	10
Bids not adequately approved	-	5	10	-	-	-
Contract extension not adequately approved	-	-	-	-	-	11
Deviations from the procurement process not adequately approved	-	9	17	-	-	-
Insufficient quotes acquired	1	7	3	1	6	3
Limitation of Scope - Information not available	-	-	14	-	-	9
No Competitive bid process	5	14	2	5	-	2
Procurement done without following a prescribed / compliant Legislation	-	2	-	-	-	-
R500k or R1m open tender threshold not adhered to	-	-	9	-	-	-
Sole supplier approval not obtained from relevant authority	5	1	-	5	1	-
Tax Clearance Certificates on Foreign as well as local suppliers	-	15	111	15	-	2
Supplier with the highest points not selected	-	-	2	-	-	2
Contract Exceeding 15% threshold without approval	-	13	-	-	5	-
Contracts not signed	-	-	6	-	-	-
Suppliers in the service of the state	-	-	119	-	-	109
Appointment of Technical Advisors	-	2	-	-	2	-
Contract extension not adequately approved	-	-	-	-	-	109
Irregular expenditure as at 31 March	3 251	3 240	3 170	1 860	1 834	1 811
The Appointment of the Bid Evaluation Committee and Adjudication Committee	-	-	119	-	-	109
Contract extension not adequately approved	-	2	-	-	2	-
Irregular expenditure as at 31 March	3 251	3 240	3 170	1 860	1 834	1 811

The background is a solid dark blue with several overlapping, semi-transparent organic shapes in lighter shades of blue. These shapes have soft, flowing edges, resembling liquid or smoke. A horizontal dark blue band with rounded ends is positioned across the middle of the page, serving as a backdrop for the text.

SECTION 5

INFORMATION SERVICE

GLOSSARY

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

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

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

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

CORPORATE CONTACT DETAILS

DENEL SOC LTD

Registration number: 1992/001337/30

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