



TWENTY 22/23
ANNUAL REPORT





REPORTING SCOPE AND BOUNDARY

This report provides information on Denel SOC's strategy and business model, financial data, operations and its ability to create value for the period 01 April 2022 to 31 March 2023. 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 51 - 64.

Non-financial information

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

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

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 50.



Mrs Gloria Tomatoe Serobe
Chairperson of the Board Denel SOC



Ms T Mokgabudi
Chairperson of the Audit and Risk Committee



CONTENTS

PART 1

WHO WE ARE

Vision, purpose and values	8
Who we are	10
Chairperson's Report	12
Board of Directors	15
Organisational structure	17
Where we operate	18

PART 2

PERFORMANCE REVIEW

CEO's report	20
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PART 3

OUR GOVERNANCE

Corporate Governance	26
Board committees	31
- Audit and Risk	32
- Social and Ethics	33
- Personnel, Remuneration and Transformation	34
- Executive Committee	35

PART 4

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Directors' report	40
Report of the Audit and Risk Committee	46
Directors' responsibility and approval	50
Report of the external auditors	51
Annual Financial Statements	69

PART 5

INFORMATION SERVICE

Glossary	170
Corporate information	172





PART 1

WHO WE ARE



OUR VISION, OUR PURPOSE

VISION



The credible State-Owned South African strategic partner for innovative defence, security, aerospace and related technology solutions.

PURPOSE



As a value-driven SOC, Denel's business focuses on:



Supply South Africa's defence and security environment with strategic technology capability, products, services and support.



Supplier development.



Leverage indigenous capability to access selected export markets.



Exploiting commercial use of technology; and Foreign policy and regional security objectives.



Contribute to the socio-economic imperatives of Government such as job creation, skills development and social investment.



Be a responsible corporate citizen to ensure:

- Good governance, and sustainability; and
- Transformation and employee well-being.



Enhancing the local technology and manufacturing base.

OUR VALUES



PERFORMANCE

We embrace operational excellence.



INTEGRITY

We are honest, truthful and ethical.



INNOVATION

We create sustainable investment solutions.



CARING

We care for our people, customers, suppliers, communities, and the environment.



ACCOUNTABILITY

We take responsibility for all our actions.

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 and integration. Denel Aeronautics is the original equipment manufacturer (OEM) of the Rooivalk combat support helicopter, as well as the design authority for both the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft.



DENEL DYNAMICS

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



DENEL 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.

ONE DENEL. ONE VISION. ONE PURPOSE!



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



"I am confident that Denel has reached a pivotal point, and that the implementation of the turnaround plan will enable us to fulfil our role as a strategic asset to South Africa and its people."

Gloria Tomatoo Serobe

Denel continues to be a critical supplier of sovereign and strategic capabilities and provides leadership to a local defence industry that exports some R7bn of mostly advanced manufactured per year.

Despite the difficulties that the company has experienced over recent years it remains a strategic national asset and a vital cog in the broader efforts to protect South Africa's sovereignty and the lives of its citizens.

There can, however, be no doubt that the defence industry, is in a perilous state after years of decline and the double impact of Covid-19 and state capture. Revenue and exports continue to decline and the budget for research and development is currently at a third of the level it was in 2016.

The impact on Denel has cascaded down to the entire local defence ecosystem, leading to the collapse of numerous small- to medium companies, delays in the movement towards industry transformation and unabated skills drain.

It is quite clear that South Africa cannot afford to lose Denel's design and manufacturing capabilities, especially in an unstable global environment in which countries easily resort to conflict to settle disputes.

The Board has stated its position that if Denel goes down, the entire defence and technology sectors in the country could grind to a halt. The development of local defence technology is critical in protecting the national interest.

We cannot afford to overly rely on the international market and lose sovereign capabilities and strategic independence.

FINANCIAL POSITION

Denel has been insolvent and with a poor liquidity position since the 2020 financial year. In the subsequent years the company received payments from the National Treasury for the repayment of bonds against the guarantees issued by the government – R416m in FY2021, R3,07bn in FY2022 and R205m in FY2023.

While this improved the solvency position it did not address the operational challenges it faced until the unbundling of the Denel Medical Benefit Trust (DMBT) and the R3,4bn recap received in March 2023.

This enabled Denel to make significant progress in the implementation of the sustainability phase of the turnaround plan and the balance of the funds will be directed towards the clearing of legacy obligations and to support the growth phase of the plan.

In his annual Budget statement, the Minister of Finance announced that some R3,4bn was allocated to Denel to support the implementation of the turnaround plan which is designed to stabilise the company and estimated to cost R5,2bn. Included in the sale of non-core assets (R1,8bn), is an amount from the unbundling of the Denel Medical Benefit Trust (R992m).

The DMBT was established in 2002 to meet Denel's medical benefits owed to employees. Through the years, the assets of the Trust always exceeded the actual valued liabilities by significant amounts. The Board decided that Denel, as the sponsor company should have access to this large surplus which, was as high as R1,472bn in April 2022.

The process to unlock this surplus took two years to complete. The view of the Board was that it had to provide a win-win situation for all involved – the pensioners, the members and Denel. To make sure that we had a proper, fair and equitable process each of these parties had an actuary to interpret and protect them.

The funds received, were utilised to settle outstanding salaries, critical legacy obligations and working capital desperately required by the operations.

BOARD PRIORITIES

A major concern to the Board is the fixed cost of the business which is far in excess of revenue and executable business. The only way for Denel to support itself is through a deep restructuring and reduction of the cost base to affordable levels.

In September 2022 organised labour was informed of possible retrenchments totalling around 30% of its reported 1 807 employees by the then newly named interim group chief executive Michael L Kgobe. All told, 663 Denel employees could be retrenched in five categories, namely senior officials and managers, professionals, technicians and associate professionals, clerks and "crafts and related trades".

Higher levels of efficiency will be achieved through the restructuring by adopting a smaller geographic footprint and streamlining policies and processes. We also intend to grow long-term 'smart partnerships' with the local defence and technology sectors. This will strengthen our position in local and international markets and give Denel access to markets, new technology and financial support.

The strengthening of in-country capabilities will minimise the burden on the fiscus and alignment on sovereign and strategic capabilities will be done between the Department of Defence, Armscor and Denel. Funding will be identified and realised through a formalised memorandum of cooperation between the Department

of Defence, Armscor and the Department of Public Enterprises, representing Denel.

Part of our turnaround process is to exploit Denel's intellectual property in close collaboration with Armscor. This will primarily be done through joint ventures with companies which occupy a specific slice of the global market.

BUSINESS DEVELOPMENT

The Middle East and East Asia markets remain key for Denel because this is where our products are mostly needed.

During the financial year the company increased its profile at both local and international levels which will form the platform for future marketing initiatives.

- We had a strong presence at the Africa Aerospace and Defence Exhibition (AAD 2022) in Tshwane and hosted several international delegations, as well as industry analysts.
- The IDEX23 Defence Exhibition in Abu Dhabi was a valuable opportunity to refresh existing relationships and pursue new opportunities and markets.
- The various variants of the Denel Badger vehicle were on display at the SA Armed Forces Day in Richards Bay and participated in exercises and night firings.
- We briefed the Joint Standing Committee on Defence on 'Denel's ability to support the SANDEF.'
- We hosted parliamentary oversight visits at our campuses in Kempton Park, Irene and Lyttleton.

The geo-political instability in Europe and other parts of the world will give impetus for significant defence industrial requirements. If Denel is returned to a stable footing this should yield many opportunities for Denel in new markets.

STRATEGIC INTERVENTIONS

In the current year the Board has introduced a number of key interventions to ensure that Denel's turnaround plan is aligned to its pressing business needs.

- We reviewed the funding strategy to address the liquidity challenges and ensured alignment with all stakeholders.
- The Board was strengthened with the appointment of two new members with the requisite skills and we are in discussions with the Stakeholder to appoint new

members with expertise in complex engineering and programme management.

- We continue to support the Special Investigations Unit which is acting on the recommendations of the Zondo Commission and is pursuing our own legal actions against individuals and entities involved in state capture.
- Mr Michael L Kgobe took over as interim Group CEO on 1 September 2022. He has an aeronautical engineering background and first joined Denel in 2000, rising through the management ranks to become the CEO of Denel Aviation in 2010.
- Our senior managements capabilities were strengthened by the appointment of Mr Riaz Saloojee as Chief Restructuring Officer in May 2022. As a former Group CEO, he has an intimate knowledge of the company and is highly respected by critical stakeholders, both locally and abroad.

FUTURE PERSPECTIVE

The Aerospace and Defence Masterplan published by Government in 2020 serves as a lodestar for the industry. This is a unique document in that it was developed jointly by all stakeholders and enjoys support and buy-in across the sector.

It sets clear goals and plans of action for the stabilisation and development of the sector. It rests on a number of pillars – to increase market access for local products, to further government-to-government marketing, to position South Africa as a regional centre of excellence for maintenance, repair and overhaul, and as a supplier of choice for the manufacturing of unmanned aerial vehicles and armoured vehicles.

We welcome the public comments by President Cyril Ramaphosa that government is committed to ensure the survival of Denel.

The Board has had productive engagements with the SANDF and Armscor and we now share a common understanding of the company's current position, its future vision and the roadmap to be followed leading to Denel's recovery.

Broader alignment is required between the Departments of Defence and Public Enterprises, the National Treasury and other relevant stakeholders to agree on Denel's

future. This will enable Denel to implement its strategic plan to consolidate operations, dispose of non-core assets and move ahead with the identified strategic equity partnerships.

We may have lost critical skills in recent years and suffered reputational damage because of lapses in governance and state capture, but we are recapturing lost ground following a complete overhaul of executive and governance structures.

Several skilled personnel who have left the company indicated a willingness to return to a stable Denel. Moreover, there remains a vast pool of engineering and technical expertise within the company and an interest by a new generation of skilled professionals to join Denel and apply their skills on existing and new products.

APPRECIATION

The Minister of Public Enterprises and his senior management remains committed to the value that Denel adds to South African society. I also want to express appreciation to the Minister of Defence who is a consistent supporter of a strong and resilient defence industry.

During the year we have had valuable interactions with the Minister of Finance and his team at the National Treasury. Their support and clear advice have enabled Denel to implement the required steps to turn the company around.

I also want to thank partners such as the Secretary of Defence, the Chief of the SANDF the board and senior executives of Armscor for their constructive engagements and support for Denel. We continue to thank all employees across the company who remain loyal, hardworking and innovative despite the difficult financial circumstances and uncertainties.

I am confident that Denel has reached a pivotal point, and that the implementation of the turnaround plan will enable us to fulfil our role as a strategic asset to South Africa and its people.



Mrs Gloria Tomatoe Serobe
Chairman of the Board of Denel SOC

BOARD OF DIRECTORS



MRS GLORIA TOMATOE SEROBE (63)
(Acting Chairperson)
Bachelor of Commerce Degree and MBA
INDEPENDENT
NON- EXECUTIVE DIRECTOR

Appointed to the board on 9 April 2018

DENEL BOARD COMMITTEE MEMBERSHIPS:
Chairperson of the Board

DIRECTORSHIPS: Founder and Group Chief Executive Officer of WIPHOLD, Non-executive Chairman of Adcorp Holdings, and Non-executive Director of Hans Merensky Holdings.

VALUE ADD TO THE BOARD: Finance and business leadership. Appointed as Denel Acting Chairperson on 25 February 2021



MR THAMSANQA HAROLD MAGAZI (65)
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 (70)
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 (42)
LLB Degree, LL.M (Human Rights Law) and LL.M (Banking and Stock Exchange 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: Mncedisi Ndlovu and Sedumedi Attorneys, State Information Technology Agency, Manghisi Trading, Magwambana Trading, Usefull trading and Stormy River.

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

BOARD OF DIRECTORS



**MS AUDREY MATSHIDISO
SHALANG SELOMAGAE
MOKGABUDI (69)**

Chartered Accountant (SA), Diploma Tax Law, Honours B.Acc, Bachelor of Accounting Science, Bachelor of Commerce, Economics and Industrial Psychology

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: Truworths International, Adcorp Holdings, Vukile Property Fund

VALUE ADD TO THE BOARD: Financial, Auditing and Governance



**MS MMAKEAYA MAGORO
TRYPHOSA RAMANO (51)**

Chartered Accountant (SA), Bachelor of Accounting 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 (Pty) Ltd, IWFSa, Solidarity Fund, SARb, GBV Fund 1, University of Pretoria and PIC

VALUE ADD TO THE BOARD: Financial and accounting specialist



**MR MICHAEL LESIBANE
KGOBE (54)**

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

ACTING GROUP CHIEF

**EXECUTIVE OFFICER and
EX-OFFICIO DIRECTOR**

Appointed Acting Group Chief Executive Officer on 1 September 2022

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to Board Committees

DIRECTORSHIPS: Non-executive director of Turbomeca Africa (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, engineering and project management



**MS THANDEKA NOSIPHO
SABELA (42)**

Bachelor of Commerce Degree, Postgraduate Diploma in Accountancy, Theory in Financial Management, CA (SA)

ACTING GROUP CHIEF

**FINANCIAL OFFICER and EX
OFFICIO DIRECTOR**

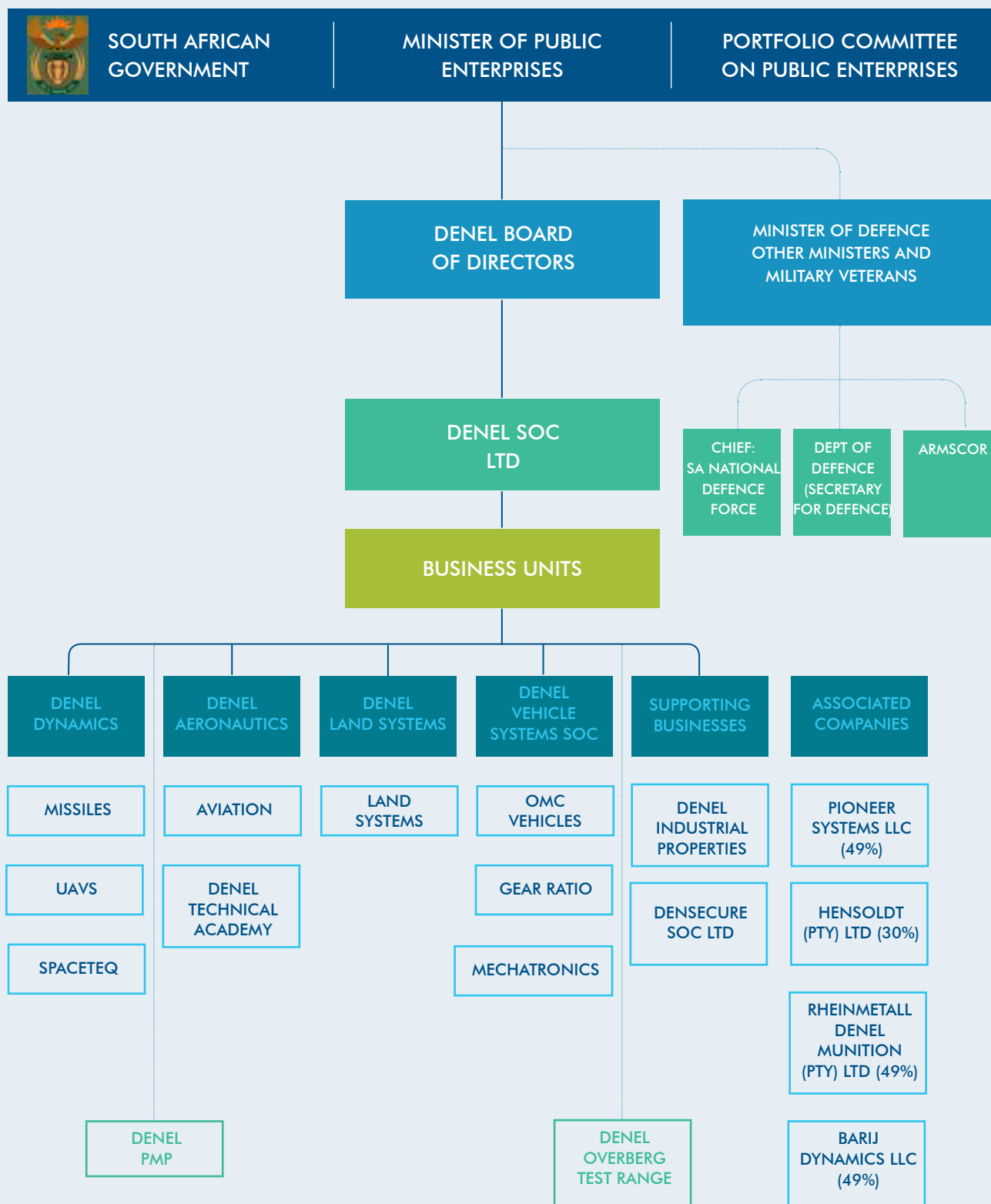
Appointed as Acting Group Chief Financial Officer with effect 26 March 2021

DENEL BOARD COMMITTEE MEMBERSHIPS: Invitee to the Board Committees

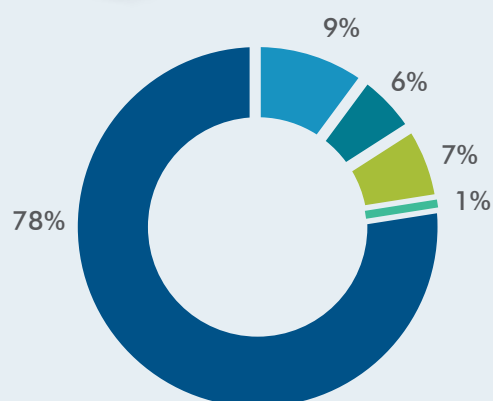
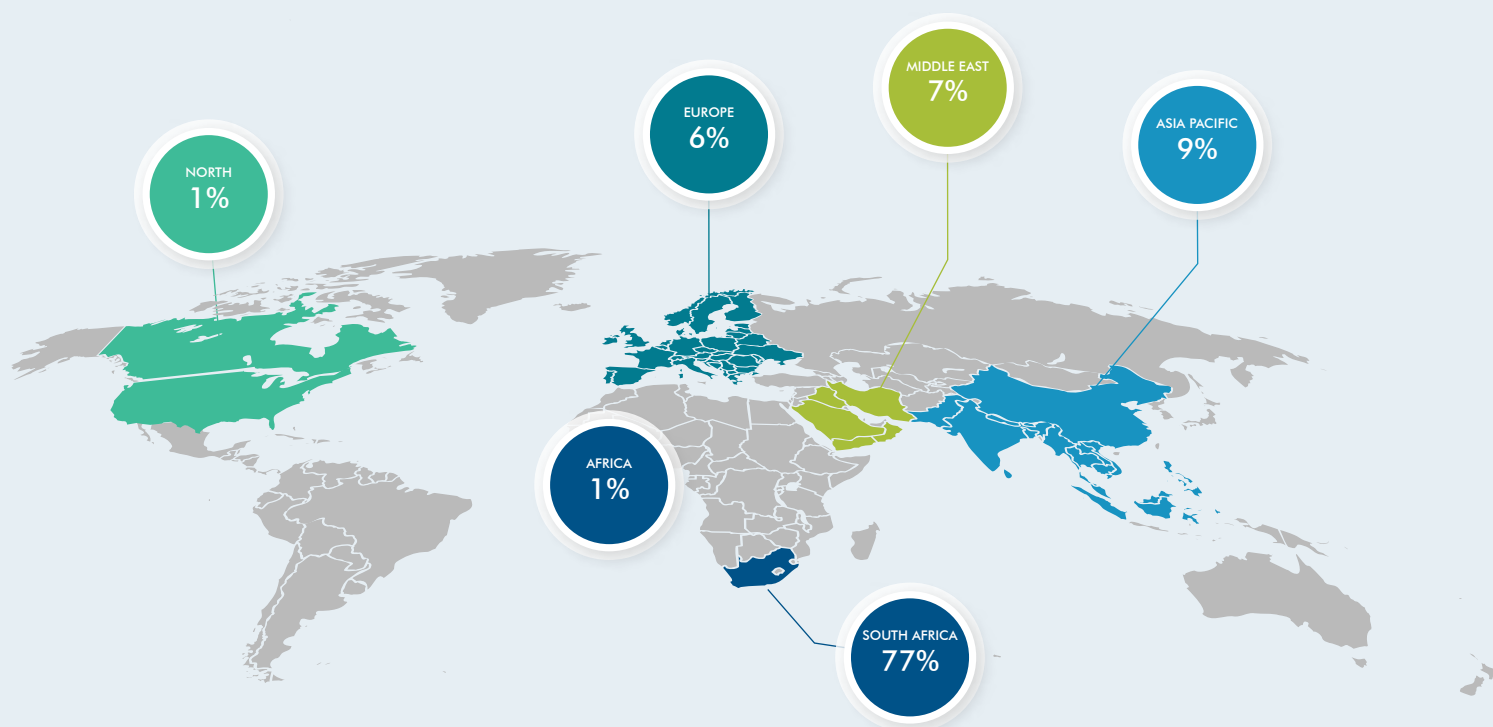
DIRECTORSHIPS: Denel Aerostructures

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

ORGANISATIONAL STRUCTURE



OUR GLOBAL PRESENCE



Africa	1%
Asia Pacific	9%
Europe	6%
Middle East	7%
North America	1%
South Africa	77%



PART 2

PERFORMANCE REVIEW



CEO'S REPORT



"There remains a large appetite for strategic partnerships in the client environment and the private sector that can be leveraged to sustain sovereign and strategic capabilities and return Denel to financial sustainability."

OT Monaheng

Group Chief Executive Officer | Denel SOC

Over the past year, Denel has embarked on concerted efforts to stabilise its operations, ensuring the future sustainability and efficiency of the company. Our ultimate objectives include significant growth in our order book, accessing new revenue streams, and nurturing innovative initiatives destined to evolve into flagship projects.

Assuming the role of Group Chief Executive Officer of Denel in February 2024, towards the end of the financial year, marked an important milestone. The Board's decision to appoint me as the first permanent GCEO in four years is deeply appreciated. With over 15 years of diverse experience within Denel's business realms, I am enthusiastic about leading the company in executing the Board-endorsed turnaround strategy.

The strategy entails three pivotal phases: stabilisation, sustainability, and growth through market expansion, new partnerships, on both local and global scales.

It is quite clear that Denel is still in the stabilisation phase. The Auditor General South Africa (AGSA) still provides us with a disclaimed audit report and one of our focus areas will be to implement the recommendations from the AGSA and return to unqualified status within the shortest possible timeframe.

This will lead to confidence in Denel. Confidence in the Board and senior leadership's ability to manage the company. Confidence in the quality of our reporting. Confidence to maintain existing ventures, but also to build lasting partnerships with the SA National Defence

Force (SANDF) and in the global community. Confidence to attract, train and maintain a new generation of engineers and artisans to Denel. And confidence to deliver on new flagship products within a dynamic and fast-changing defence and security environment.

IMMEDIATE PRIORITIES

Denel's restructured focus rests upon its proven competencies in guided weapons, land defence systems, aircraft engineering and maintenance, and delivering integrated systems for security environments.

Challenges persist as the business's costs far surpass current revenue levels. The only way for Denel to support itself is through improved revenue realisation and reduction of the fixed cost base to affordable levels.

Higher levels of efficiency will be achieved through further reductions in the head count in some areas, a smaller geographic footprint and the streamlining of systems, policies and processes.

Financial viability will also be achieved through a range of strategic actions including the appointment and retention of key skills and leadership, and the normalisation of relationships with employees.

There is large appetite for strategic partnerships with Denel in the local and global defence industry and the company's core capabilities and intellectual properties can be utilised within the commercial sector and other state-owned entities.

The new strategic direction enjoys the support of our

Shareholder, the Department of Public Enterprises and will be strengthened through a formalised Memorandum of Cooperation with the Department of Defence and Armscor to ensure alignment on sovereign and strategic capabilities.

Government's commitment to recapitalise a restructured Denel will provide a solid base for the immediate future. The strategic intent is to reduce dependence on the fiscus for the maintenance of critical strategic and sovereign capabilities.

The funding of strategic and sovereign capabilities – which the local defence and security sectors depend on – will be ringfenced to minimise the impact of rapid declines in exports, as was experienced during the Covid period

We will enter into "smart partnerships" with the defence industry to ensure that the majority of jobs are created within the wider sector. Denel itself will be "lean and mean" with a flexible cost structure and capabilities that can be leveraged for productive endeavours in private industry.

TURNAROUND STRATEGY

Denel will be restructured into four divisions: Guided Weapons, Land, Air and Integrated Systems. **Guided Weapons**, will include missiles and precision guided munitions and unmanned aerial vehicle development and production; **Landward** will cover infantry systems, artillery, armoured vehicles, ammunition and mechatronics; **Aerospace** will cover aircraft and engine maintenance and repair, aircraft systems integration and upgrades, and test and evaluation; and **Integrated Systems** includes complex system integration such as ground-based air defence systems and cyber solutions.

Denel Land Systems (DLS), Denel Vehicle Systems (DVS), and PMP will be merged in the Landward division, while Aerospace will comprise the Overberg Test Range (OTR) and Denel Aeronautics. Guided Weapons will incorporate Denel Dynamics and Spaceteq.

The intent of the turnaround plan is to reduce dependence on the fiscus for the maintenance of critical strategic and sovereign capabilities. Its success is premised on timeous cash inflow of working capital to execute operations and restructuring costs.

The roadmap ahead involves expanding our order pipeline, securing local contracts, exploring opportunities in international markets, and diversifying our revenue streams to ensure sustained growth.

OPERATIONS

All divisions were significantly impacted by the delayed payment of salaries and the concurrent loss of skills. DLS experienced further blows from the pause in the Hoefyster programme as well as delays on the turret programme.

Employees from DVS were seconded to DLS to work on vehicle platform programmes and engineering to strengthen Denel's landward capabilities.

The Capex plan is being reviewed in detail as part of the critical business recovery activities following the recapitalisation. Resources will be prioritised to cash generating programmes.

PMP is one division that is aiming to secure JCPS Cluster contracts. With orders from the SANDF, South African Police Service and the export market, Denel PMP's small and medium calibre munitions capability has restarted production but is still battling to deliver on time to its clients. The plant requires a comprehensive rejuvenation which can be achieved through strategic partnerships and its current dire situation will improve when funding becomes available to upgrade facilities and systems.

The Overberg Test Range (OTR) has also been severely underfunded in recent years resulting in a significant backlog in CAPEX for maintaining and upgrading the facilities. However, some recent contract from the Armscor has improved the situation, foreign clients are beginning to return to OTR, and a funding from the MTBPS allocation will continue to have a positive impact on OTR's availability to support the SANDF for tests, trials, training and exercises in this world class, unique strategic capability.

Denel Dynamics has been hard hit by the company's liquidity crisis, with many of its skilled staff leaving. This is further exacerbated by the poaching of resources by local and foreign companies when Denel was unable to pay salaries. Denel is able to restore capabilities and capacity for the production of these products, but some key engineering resources will be required from the broader industry for obsolescence re-engineering

and new product development. A partnering model has been developed with support from Armscor to restore this capability in South Africa.

The restart of the A-Darter programme would go a long way to support the capability restoration and make this sovereign capability available to the SANDF again.

It is critical to stop the bleeding and restructure the organisation to retain strategic capabilities, especially in support of the defence and security sectors. During the past year, there were several examples of how Denel-made equipment supported the work of the SANDF.

- We provided technical support to SANDF helicopters during the floods in KwaZulu-Natal and the unrest in July 2022;
- Rooivalk and Oryx helicopters form part of the United Nations peace support operations in the eastern part of the Democratic Republic of the Congo;
- Denel supports SANDF equipment – including C130BZ Hercules aircraft – deployed in the SADC mission in northern Mozambique.

FINANCIAL PERFORMANCE

Revenue increased by R82m – to R1.469 bn – despite reduced performance at all entities resulting from liquidity constraints. However, Operating Profit rose to R297m following the liquidation of the Denel Medical Benefit Trust (R992m).

A 75% increase in liquidity includes the ring-fenced funds for Hoefyster (R330m) and turret programme (R110m) as well as the recapitalisation received in March 2023.

The Denel Medium Term Note (DMTN) programme has been significantly reduced with the support of government. Denel has a 5-year government guarantee of R3,430bn which expires at the end of September 2023. A process for the repayment of the guaranteed debt was agreed on between Denel, the Department of Public Enterprises and National Treasury.

The decision by Government to recapitalise Denel to an amount of R3,4bn will revitalise the business and move it to the next phase of a strategic drive to create a long-term, sustainable future based on improved business efficiencies and growth.

This will enable us to streamline the business and establish a base from which we can significantly grow our order book and access new revenue streams.

It is also a vote of confidence in a credible process to stabilise the company as it emerges from a sharp downturn, caused by mismanagement, state capture and governance failures.

Government, as sole shareholder, recognises the strategic importance of Denel as a commercially driven aerospace and defence company and the immense value it can add to the economy in terms of innovation, creation of intellectual property (IP), creation of highly technical jobs, support the local defence industry and export revenue generation to contribute to the balance of payments.

The R3,4 billion allocated to Denel comes with conditions and will be monitored by Treasury, the Department of Public Enterprises (DPE) and Denel's directors. Denel sees it as a lifeline to implement priority measures to sustain the business.

The allocation was made through the Special Appropriation Act in 2022 and Denel has drawn R2,2 billion to settle statutory and legacy debt obligations as well as fund working capital requirements.

The remaining R1,2 billion is ring-fenced and will be accessible when Denel can show progress on, among others, consolidating operations; disposing of non-core assets and finalising strategic equity partnerships.

It became quite clear that the previous business structure of Denel was not sustainable. It required a fundamental restructuring and a reduction of the cost base to affordable levels.

In line with the turnaround plan we have started to reduce our geographic footprint, rationalise facilities and implement a shared services model in areas such as supply chain management, human capital and development, information and communication technology as well as finance.

I am confident a sustainable business model will enable us to focus on growth. There is still significant global interest in our battle-proven products in artillery systems, infantry weapons, missiles, small to medium ammunition and infantry systems as well as aeronautical solutions of manned and unmanned aircraft and landward combat vehicles with armoured protection.

Our reputation for excellence and quality has not been dented and there is still an appetite for partnerships with local and global companies in the aerospace, defence and technology sectors.

In the coming months, Denel will identify new revenue streams and explore further market opportunities for our existing product range as well as the advanced technology sectors of systems integration, command and control and cybersecurity.

RATIONALISATION OF FACILITIES

The new operational structure will, no doubt, require a reduction in our geographic footprint to ensure improved efficiencies and removal of redundancies.

- The capabilities of Denel Vehicle Systems will be relocated to the Lyttelton campus. This is estimated to cost R46m but will lead to a consolidation of overheads and an annualised benefit of R68m.
- The Kempton Park campus will, in future, be merged with the Overberg Test Range in the new division called Denel Aerospace.
- The strategic capacitation of the guided weapons capabilities of missiles and precision-guided munitions will lead to a renewed focus on this critical element within Denel's portfolio and enable us to enter into partnerships and seek external funding for future projects.
- Some of Denel's most sought-after capabilities are to be found in our Integrated Systems capability. This has now been elevated to the status of a separate division which will not only seek opportunities in the defence market, but also deploy its capabilities in non-defence security operations in other state-owned companies and the commercial market.

EMPLOYEE RELATIONS

At the end of the current financial year the company had 1 670 permanent employees and 117 contract workers. Some 159 employees accepted voluntary severance packages at a once off cost of R71m, but it will lead to monthly savings to the business of R63m per annum.

Females represent 27% of the workforce, 68,3% are African, Coloured and Indian (ACI) and 1,5% of employees are considered to be people living with disabilities.

Denel retains valuable IP. However, the most effective IP memory resides in the experience and knowhow that has been accumulated over years among our staff members. The loss of critical skills and experience at Denel poses a risk to South Africa's defence and high-technology sectors.

Our Human Resources strategy is designed to align the business activities of Denel with the correct skills sets. This requires the acquisition of external skills as well as the maximising of internally available skills.

An integrated talent management strategy has been developed to ensure this synchronisation while the Denel Technical Academy is being reorganised to address the many learning initiatives that were identified.

NEW OPPORTUNITIES

We recognise the fact that Denel has suffered significant reputational damage because of the state capture revelations and media reporting regarding our inability to deliver on projects or pay staff members. However, our standing in the global defence industry remains intact and there is still significant of interest in our flagship products such as the Umkhonto air defence system, G5/G6 howitzers and the Rooivalk attack helicopter.

The Africa Aerospace and Defence Exhibition – AAD 2022 – provided Denel with a platform to demonstrate to a wider audience that the company is rebuilding and refocusing for growth. AAD 2022 was visited by the world's top aerospace and defence decision-makers and industry analysts who visited the Denel stand and received information on the full range of its products.

The International Defence Exhibition and Conference (IDEX23) held in Abu Dhabi gave us an opportunity to demonstrate to a global audience that Denel is open for business and that the reputation of our products and services remains high among industry decision-makers and analysts.

We were able to share the new Denel strategy and turnaround plan with key stakeholders and emphasises the fact that a future Denel will remain innovative with the ability to evolve and deliver world class products across the spectrum of aerospace, defence and related technologies – from land to sea, to air, to the cyber and security environments.

A REDEFINED FUTURE

There is a large appetite for strategic partnerships in the client environment and the private sector that can be leveraged to sustain sovereign and strategic capabilities and return Denel to financial sustainability.

Moreover, there is still a significant interest in Denel's battle-proven IP, and the rapidly changing global defence environment will create opportunities to market the company's products and form deeper strategic relationships.

Once Denel has been stabilised and the reputational damage restored, the company will build long-term strategic partnerships in all our businesses. This will entrench our position in local and international markets and maximise the value of IP and capabilities within Denel.

It is quite clear that Denel is back and is redefining its future. It might be in a different shape and in different structures, but the essence of Denel will remain. It is a valuable asset that plays a key role in the country's sovereignty.

The essence of the company has survived the corruption due to state capture as was laid bare at the Zondo Commission of Enquiry. Yet, despite this, our confidence in the future is based on the quality of committed employees and products, our support structures, our long-standing partnerships with customers and other important stakeholders, and the strong support the Board and the shareholder as represented by the Minister of Public Enterprises.

I wish to express my appreciation to Board of Denel, under the leadership of Ms Gloria Serobe. It provided significant guidance to management, and we are confident that we can continue to draw wisdom and strategic direction as we move forward with the restructuring of Denel.

The turnaround and repositioning of the company is a trying and arduous process. I want to recognise and thank each and every staff member for the sacrifices they are making to keep Denel going and getting it back to where it should be.



Mr OT Monaheng
Group Chief Executive Officer
Denel SOC



PART 3

OUR GOVERNANCE



CORPORATE GOVERNANCE

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

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

The Board consists of the following committees:

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

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

- Business Development Forum
- Restructuring Committee

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.

Board by gender



Board by age



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:

Michael Lesibane Kgobe 1 September 2022

Tryphosa Ramano 11 March 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 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 standards and sends the tone of the company values including principles of ethical business practice and requirements of being a responsible corporate citizen.

BOARD MEMBER	Total	Q1 (April – June 2022)			Q2 (July - Sept. 2022)		Q3 (Oct. – Dec. 2022)			Q4 (Jan. – Mar. 2023)		
		3 May 2022	Special 17 May 2022	24 June 2022	Special 4 Aug. 2022	Special 22 Aug 2022	2 November 2022	Special 30 November 2022	Special 6 December 2022	31 Jan. 2023	17 Feb. 2023	Special 30 Mar.2023
Mrs GT Serobe (Interim Chairperson)	11/11	VP	VP	VP	VP	VP	✓	VP	VP	VP	VP	VP
Mr TH Magazi	11/11	VP	VP	VP	VP	VP	✓	VP	VP	VP	VP	VP
Lt. Gen. TT Matanzima	9/11	VP	A	A	VP	VP	✓	VP	VP	VP	VP	VP
Mr MM Mnisi	11/11	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP	VP
Ms AMSS Mokgabudi	8/11	VP	A	VP	A	A	✓	VP	VP	VP	VP	VP
Ms MMT Ramano	5/11	VP	A	A	A	VP	A	VP	VP	A	VP	-
Mr KW Hlakoane	4/4	VP	VP	VP	VP	-	-	-	-	-	-	-
*Ms T Sabela	10/10	VP	VP	VP	VP	-	✓	VP	✓	✓	✓	✓
*Mr ML Kgobe ¹	4/6	-	-	-	-	-	A	A	✓	✓	✓	✓
Ms M Ngema	2/2	VP	VP	-	-	-	-	-	-	-	-	-

*Ms T Sabela is an Acting Group Financial Officer and Mr ML Kgobe is an Acting Group Chief Executive Officer.

A = Apology

VC= Video Conference

VP = Virtual Platform

¹ = Appointed AGCEO on 1 September 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 2022 to 31 March 2023 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 2022 to March 2023) (Amounts Paid)
NON-EXECUTIVE DIRECTORS	R'
Mrs GT Serobe	R962 160
Mr TH Magazi	R421 555
Lt Gen. (rtd) TT Matanzima	R259 799
Mr MM Mnisi	R309 351
Ms AMSS Mokgabudi	R441 889
Ms MMT Ramano	R155 992
Sub total	R2 550 746
EXECUTIVE DIRECTORS	R'
Mr KW Hlakoane	R2 385 335
Ms T Sabela	R1 937 869
Mr ML Kgobe	R1 765 909
Sub total	R6 089 113
Total	R8 639 859

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 of four 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 activities of the Board committees. 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 audit fees, risk management and the appropriateness of the combined assurance model.

		Q1 (April – June 2022)		Q2 (July - Sept. 2022)	Q3 (Oct. – Dec. 2022)		Q4 (Jan. – Mar. 2023)
COMMITTEE MEMBER	Total	Special 29 April 2022	24 May 2022	20 Sept. 2022	28 Oct. 2022	Special 30 Nov. 2022	30 Jan. 2023
Ms AMSS Mokgabudi (chairperson)	6/6	VP	VP	VP	VP	VP	VP
Mr TH Magazi	6/6	VP	VP	VP	VP	VP	VP
Mr MM Mnisi	6/6	VP	VP	VP	VP	VP	VP
Ms MMT Ramano	4/6	VP	VP	A	VP	A	VP

A = Apology

VC= Video Conference

VP = Virtual Platform

SOCIAL AND ETHICS COMMITTEE

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

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

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

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

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

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

		Q1 (April – June 2022)	Q2 (July - Sept. 2022)	Q3 (Oct. – Dec. 2022)	Q4 (Jan. – Mar. 2023)
COMMITTEE MEMBER	Total	No Meetings	No Meetings	21 October 2022	No Meetings
Lt. Gen. TT Matanzima (Chairperson)	1/1	-	-	VP	-
Mr TH Magazi	1/1	-	-	VP	-
Ms AMSS Mokgabudi	1/1	-	-	VP	-

VP = Virtual Platform

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.

COMMITTEE MEMBER	Total	Q1 (April – June 2022)	Q2 (July - Sept. 2022)				Q3 (Oct. – Dec. 2022)			Q4 (Jan. – Mar. 2023)
		No meetings	Special 25 Aug 2022	Special 9 Sept. 2022	Special 20 Sept. 2022	Special 27 Sept. 2022	21 Oct. 2022	Special 16 Nov. 2022	Special 24 Nov. 2022	Special 16 Feb. 2023
Mr TH Magazi (Chairperson)	8/8	-	VP	VP	VP	VP	VP	VP	VP	VP
Lt. Gen. TT Matanzima	6/8	-	VP	A	VP	A	VP	VP	VP	VP
Mr MM Mnisi	7/8	-	VP	VP	VP	VP	A	VP	VP	VP

A = Apology

VP = Virtual Platform

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 our procurement and legal departments.

Ethics matters are monitored and reported to both the audit and risk committee and the social and ethics committees.

INTERNAL CONTROL

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

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 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 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 adopt a hybrid model for the internal audit function. This was considered the most efficient manner to support the combined assurance model with in-house skills that will strengthen the understanding of the business whilst sourcing specialist skills from the market as and when required.

BUSINESS UNITS

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

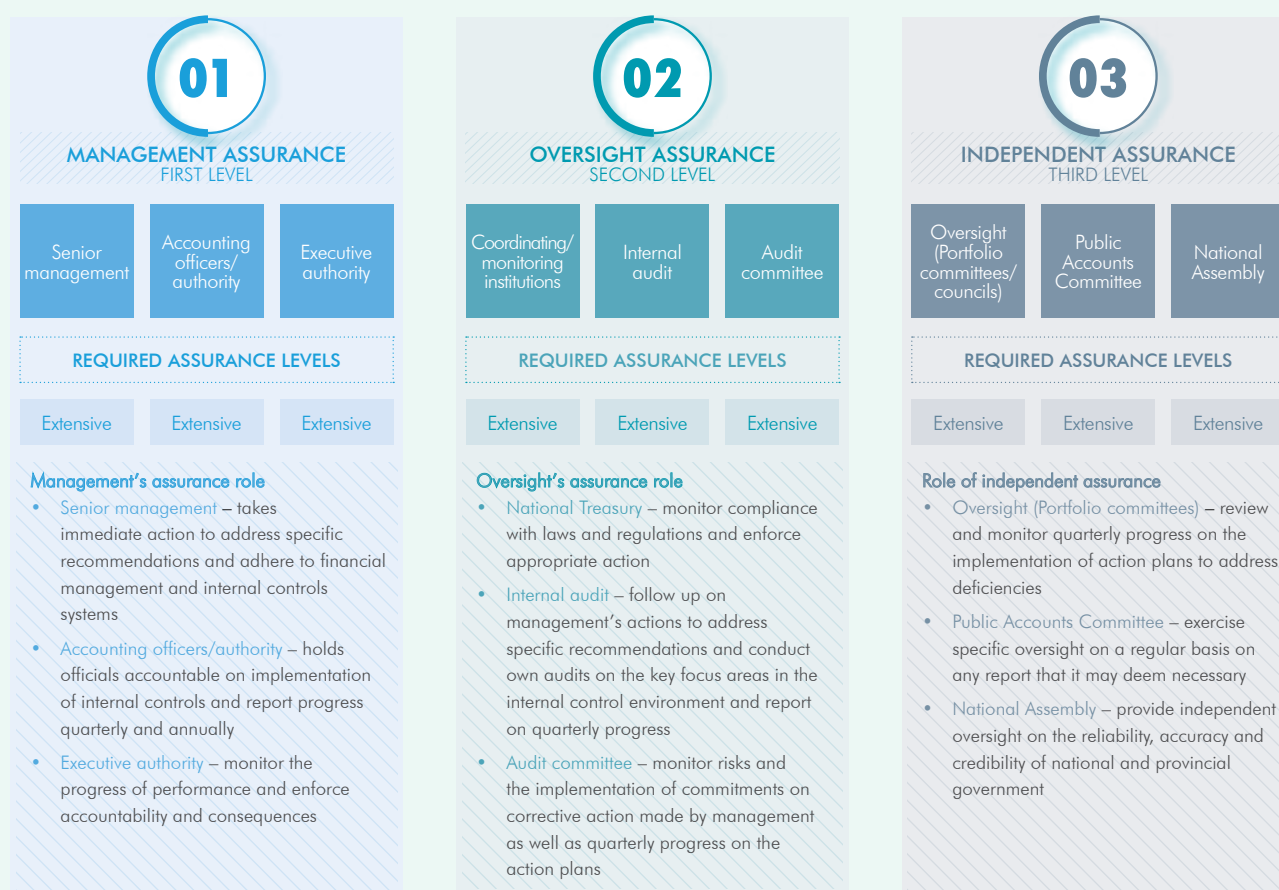
All business units are accountable to the GCEO. This material arrangement is further enhanced by each business unit CEO being part of the group Exco. In addition to the business development council and IT steering committee, various forums are held regularly, i.e. arms control, business development, CFO, HR, legal, risk and compliance, security, SHEQ, supply chain and transformation. Operational 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 management self-assessments, observations, risk management, internal audit, external audit, the Parliamentary Portfolio Committee as well as various external bodies. External bodies involved in Denel include the National Key Point Secretariat, National Conventional Arms Inspections and Audit Directorate, Armscor, SABS, Dekra, Bureau Veritas, OEMs and SANAS. Internal audit conducts risk-based assessment of the control environment and management assurance covers all critical business processes and their performance. Internal audit completes its assurance processes based on the approved audit plan designed for Denel's risk profile. The 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 and avoid the abuse of the supply chain 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 whose 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, ethics and fraud and corruption prevention awareness are included in the group's induction programme. Additionally, fraud and corruption prevention awareness are continuously promoted through the group's newsletters and other forms of communication.

DETECTION OF FRAUD AND CORRUPTION

Denel's fraud and corruption detection process cuts across business functions. The recruitment processes help detect persons with high exposure to 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 expenditure 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 re-launch the hotline and establish a panel of forensic companies to ensure that cases are promptly and independently investigated.



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

HOTLINE: **0800 03 27 84**

WHATSAPP: **0860 00 40 04**

EMAIL: **denel@behonest.co.za**

INVESTIGATION AND CONSEQUENCE MANAGEMENT

Denel has appointed a panel of forensic firms to conduct investigations under the subversion of the Board Audit and Risk Committee. Of the cases concluded disciplinary action or criminal action are being processed as appropriate.

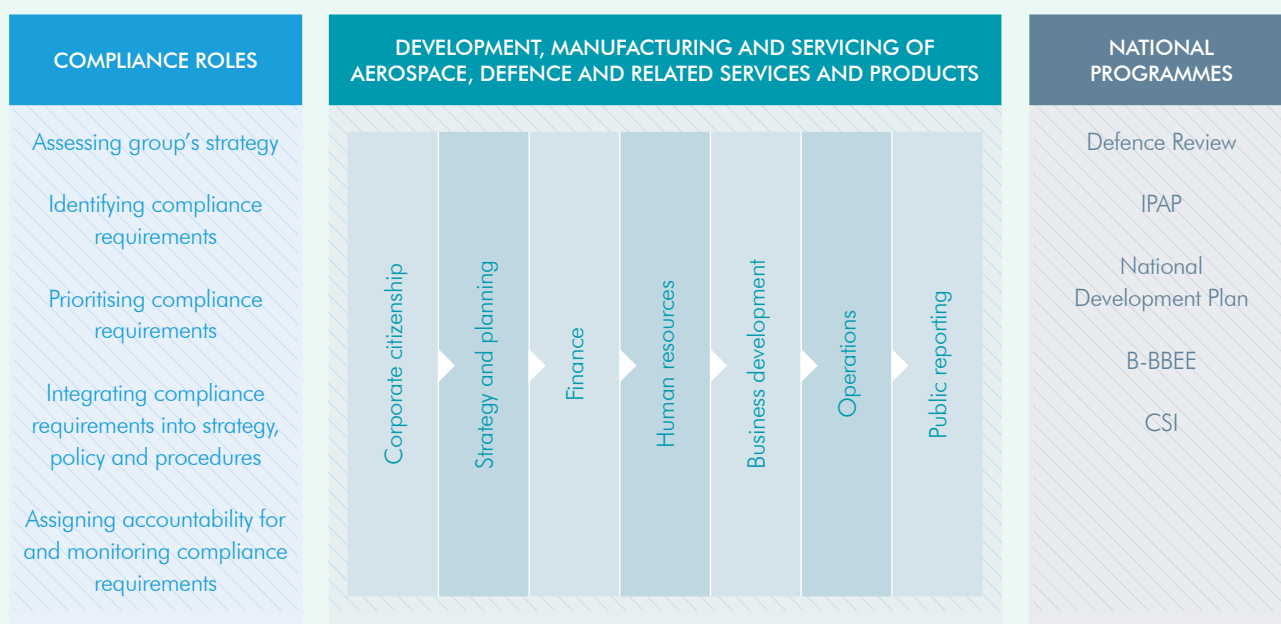
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

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

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

LEGAL COMPLIANCE FRAMEWORK

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



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



PART 4

CONSOLIDATED
ANNUAL
FINANCIAL
STATEMENTS



DIRECTORS' REPORT

The financial results in this report are based on the results of the Denel group. 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 10 - 11.

FINANCIAL AND OPERATIONAL REVIEW

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

GROUP	2023 RM	2022 RM
Revenue	1 469	1387
Gross profit/(loss)	183	(13)
Other income	1 163	129
Operating expenditure	(1 049)	(857)
Operating profit/loss	297	(741)
Net finance costs	(427)	(365)
Net profit/(loss)	(68)	(986)

The overall performance of Denel for the year ended 31 March 2023 was a reflection impact brought about by the myriad of challenges the entity faced in the financial year. The business continued to grapple with the impact of insufficient working capital to execute on contracts whilst successfully defending liquidation applications from legacy obligations. Denel was able to unlock liquidity from its post retirement benefit trust resulting in an operating profit of R297m (2021/22: (R741m)). The revenue generation continues to be at low levels at R1 469m driven by late deliveries to clients as a result of liquidity constraints.

FUNDING

Denel has a DMTN programme of R4,0bn that allows for short-and medium-term debt issuance. Of the R4,0bn, an amount of R3,43bn is government guaranteed and the guarantee matured on 30 September 2023. The debt issue is short-term, being 12 months and is likely to remain as such under current economic conditions. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R100m (2021/22: R290m). The debt was issued through a bond. The group's borrowings are at an average interest rate of 10.04% (2021/22: 7,20%) that includes an average overnight borrowing rate of 12% (2021/22:

8,36%), and an average bond interest rate of 8,07% (2021/22: 6,04%), which resulted in borrowing cost of R34m (2021/22: R118m restated) during the year.

On 2nd August 2022, Fitch Rating Agency affirmed Denel's National Long-Term Rating at 'CC(zaf)' and its Short-Term Rating at 'C' (zaf) due to its severely strained liquidity position, delinking it from the sovereign and rating it on a standalone credit basis.

In the financial year 2022/23, Denel received R3,4bn with R1,8bn available immediately and the remainder subject to conditions. This has been utilised in the business to repay long overdue creditors, settle debt and restart operations. The groups liquidity position however remains constrained negatively impacting operations. Denel's cash flows from operations remained negative R356m (2021/22: R342m restated).

GOING CONCERN

The annual financial statements of Denel (SOC) Ltd for the year ended 31 March 2023 were prepared on a going concern basis. In terms of the International Accounting Standard 1, Presentation of Financial Statements (IAS 1) the directors are required to assess the entity's ability to continue as a going concern for the foreseeable future. Such assessment must consider all available information, which should be at least, but not limited, to twelve months from the balance sheet date. The Board assessed the Denel group's ability to continue as a going concern in the foreseeable future by looking at all areas that are risky in the business and that could be a threat to the business's ability to continue as a going concern in the foreseeable future. The financial performance of the group is a function of both internal and external factors that exist within the environment in which the business operates.

External factors that are material to Denel's going concern status:

- *Local demand for defence equipment* – Denel's primary mandate is to support the strategic capabilities of the South African National Defence Force as well as providing security solutions to some state security agencies. This has entrenched Denel's position in the local market. Defence spend around the world varies in line with regional and international considerations with government

policy playing a critical role. Despite the decline in government spend reprioritisation of the budget with resultant decline in local demand, Denel has managed to diversify its revenue by driving exports diversify its revenues. Over the intervening period, Denel has been aggressively pursuing its target of 60% international revenue vs 40% local business and has ensured a sustainable pipeline.

- *Global demand for military equipment beyond Denel's traditional markets:* Denel has a strong high priority pipeline of R26bn and secured orders of R3.9bn worth of local and foreign orders and contracts. This is evidence of increasing global demand for military equipment and technologies as well as Denel's position in the global defence supply chains in respect of its distinct offering of military technologies and battle proven platforms. The significant priority pipe-line bears testimony to Denel's success in building confidence and the reopening of doors for significant opportunities especially in our traditional markets.
- *Market access to increase exports and maintain international footprint:* Denel's market access and successful cooperative ventures in foreign markets has been the product of a supportive government policy mainly the DoD, DPE and DIRCO Denel continues to invest in and nurture these relationships in order to navigate geopolitical considerations as evidenced by its order pipeline as well as well as maintaining its investment, particularly in the Middle East.
- *Strong relationship with and evolving policies of financial institutions:* Whilst Denel has received crucial funding allocation from the NT, the company relies on the local financial sector for banking services including obtaining guarantees for contracts. Despite constraints Denel has maintained its relationships with its bankers and continue to build confidence with the financial sector. Denel is working with its banking partners and NT respectively to develop plans to proactively de-risk the company from banking policies that are averse to the defence sector.

Internal factors that are material to Denel's going concern status:

1) Liquidity constrains

The directors have reviewed the budgets and cash flow forecasts for the next 12 months, as well as the current liquidity and solvency position of the group. The directors ascertained that there are certain months where cash flows generated by operations are negative, casting significant doubts about liquidity due to short-term constraints. Denel has implemented strategies to address these short-term cash challenges; renegotiating contractual terms with clients in order to maintain positive cash and ensuring the execution of contracts take priority. Denel is also engaging both the Department of Public Enterprises (DPE) and National Treasury (NT) to unlock the balance of the Special Appropriation funds to the value of R914m. To secure the sustainable management of long-term cash flow there is a drive to expedite execution of existing contracts and to maximise profitability. Management is also focused on the strengthening of internal controls throughout the business and to contain costs in order to reduce losses.

2) Continuous losses that exist in the business

Denel has been reporting losses generated from operations for consecutive years including 2022/23 (when excluding the non-recurring R992m other income that was received from the disposal of the DMBT). Management is looking at increasing revenue generated by operations and improving efficiencies. In 2024/25 Denel is forecasting to increase its revenue to R2.1bn, a growth of about 28% from the 2023/24 financial year. This expected revenue growth is backed up by secured and signed contracts that are already in place and some already in the execution stages. If this revenue is achieved, Denel is expected to break even. Revenue is expected to grow to R3.5bn by the end of the 2026/27 financial year and an operating profit margin of 10% will be achieved.

3) Non-performance of a major project

The Infantry Fighting Vehicle programme has been plagued by delays since the start of the programme. The main contributor to this delay has been the inability to execute the programme efficiently; as a result of scope creep that affected the freezing of the scope of the project. Furthermore, the phase ii contract was signed before reaching the milestones required for the production baseline; this led to a situation where phase i of the project was not executed on time. It is further noted that employees deployed to execute the programme were mismatched resulting in current programme/project managers not being outright project managers, but engineers adapted to project manage programmes in order to fill the gaps. Mitigating factors include: Considering Denel's lacklustre performance in executing some major programmes, the business has adopted a programme management framework which follows principles of project management and thus, define these principles to ensure governance and compliance in programme delivery. Furthermore, as the company is redefining itself after the conclusion of the s189 process, skills assessment is being implemented to ensure fit for purpose placement of employees. In addition, performance management and contracting has been implemented as it is central to ensuring efficiency and accountability in the business.

4) Critical Skills Shortage (vacancies)

Denel's performance is highly dependent on the availability of specialised and critical skills that are often scarce and in high demand. Denel's value chain extends to the industry which makes its involvement critical for delivery of programmes in Denel. This requires Denel to adopt a pragmatic approach of aligning critical skills to its core competencies whilst developing capacity in the industry for certain activities. This model has been optimised over a number of years with Denel positioned as the design authority and integrator for sovereign and strategic capabilities.

Denel's head count has reduced dramatically over the last 3 years due to a deliberate strategy to right-size the company, natural attrition and job insecurity due to low output prior and after the COVID-19 pandemic. Denel's current headcount of 1600 people is aligned to the current orders on-hand and the foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and test, the hybrid model including using internal skills as available, retraining internal resources, contracting individuals in,

and subcontracting out is used and expanded on, where required. Furthermore, a plan to recruit for the medium-to long-term for sustainability and growth phases has been developed. The success of the hybrid model has been demonstrated at the entities that have been able to deliver to customers despite the loss of inhouse skills. Examples being the A-Darter Air-to-Air Missile programme, the G5 and G6 Upgrade programmes, as well as the Umkhonto Missile System upgrades and the Armoured Vehicle 8x8 programme for international clients.

To address the current vacancies that exist in the business, approximately 15% of such positions would require specialist recruitment (and or long-term training). The other 85% would either be available and able to fulfil the required function or can be upskilled through training. This training will be planned and phased so that the individuals are given the responsibility at the appropriate time so as to ensure that there are no adverse effects on operations (e.g. subcontracting of mentors).

Management recognises the challenges and threats that are caused by the current vacancies in the business and is on a recruitment drive to fill the critical vacancies both at Corporate Office and at operating divisions, e.g. the Company has recruited a permanent Group Chief Executive Officer and a Chief Audit Executive – both positions were vacant for close to five (5) years. With effect from 1 April 2024, the Company will have appointed the Group Executives in charge of the new Divisions (following the restructuring) with full delegated authority, albeit on an interim basis, but with a commitment to have permanent appointees by the end of Q1 2024/25. All the interim appointees are from within Denel. This will ensure continuity when the permanent appointments are made. Some of the interim appointees are actually eligible to be considered for permanent appointments.

Denel also enjoys a stable labour relations environment and maintains good relationships with the two recognised Trade Unions (NUMSA and Solidarity). The stability of the relationships was demonstrated in August 2023 when the Denel Board, Management and Organised Labour (OL) agreed on a performance pact, which would see joint commitment to help the company meet its objectives. OL committed among others. To uninterrupted operations and working longer hours as may be required.

5) Recap conditions to access the R914m immediately

There are conditions attached to part of the recap proceeds that were received in 2023. To unlock the ring-fenced amount Denel had to fulfil certain performance conditions, this included a commitment by Denel to raise R1.8bn through the sale of non-core assets to support the funding for the turnaround plan. Denel has since raised R992m through the sale of DMBT (as part of non-core) which represents about 55% of the total R1.8bn.

For the implementation of the selling of non-core assets, Denel requires DoD concurrence. The DoD has indicated that it is still considering Denel's request.

While waiting for the DoD response, Denel has considered alternative options to make sure sufficient funding is available for the execution of the turnaround plan. These alternative plans were discussed with National Treasury for its consideration to release the recap funds that are currently ring-fenced. Denel has commenced leveraging and optimising the utilisation of its property portfolio to generate cash.

6) Plant and infrastructure conditions

As equipment ages, it tends to fail more frequently, and requires more extensive maintenance and repair. As part of an overall maintenance strategy, Denel has identified ageing plant, equipment particularly in the PMP division. Denel has put in place, as part of its maintenance strategy, a regime to maintain such items in a state of good repair and efficient working order. In the medium to long-term, Denel has budgeted for targeted capital replacement in the recap funds to minimise the risk of business interruptions.

7) Bank guarantees

The nature of the business in which Denel operates is such that bank guarantees are required before a contract can be concluded with a potential customer. A bank guarantee is an assurance that a bank provides for a contract between two external parties. The bank guarantee serves as a risk management tool for the customers for the prepayment to start the execution of a project. By issuing a guarantee the bank therefore assumes a liability for the execution and completion of the contract. Capacity and appetite for banks to issue guarantees to Denel has been constrained due to

historical losses as well as poor finance and operational performance. Denel is in conversation with the National Treasury and private equity providers, respectively, to expand capacity for guarantees.

8) Turnaround strategy

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

During the first part of Denel's Turnaround strategy, it put significant 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.

As part of the turnaround strategy, Denel focused on bringing operations back into production as evidenced in the deliveries of the Armoured Vehicle 8x8 Programme turrets in South East Asia, G6 and Vehicle Spares Deliveries in the Middle East. Despite budget constraints it restarted and revamped the SAAF A-Darter Missile programme, concluded local and international client aerospace testing at the Overberg Test Range, ensured ongoing deliveries from the Integrated Systems team to the SA Army, and continued support of the SAAF's Fixed and Rotary Winged assets.

While Denel's head count has reduced dramatically over the last four years, the current headcount of approximately 1 600 people is aligned to the current orders on-hand and foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and test, Denel has embarked on a hybrid model of using internal skills as available, retraining internal resources, contracting individuals in, and subcontracting. It is also recruiting for the medium-to long-term growth.

In parallel, Denel ensured that it is back on the preferred supplier lists in the market so as to qualify to submit a formal response when the RFPs are sent out. Denel has demonstrated its capabilities and responded to technical and commercial Q&A to stay back on the potential supplier lists, developed localisation models to qualify to bid, and planned for mandated in-country demonstrations to qualify to bid. The brand has recovered tremendously over the last year where the high priority campaigns are in excess of R26bn. Over the last year Denel's sustainability has improved significantly and has secured more than R3.9bn worth of local and foreign orders and contracts in the Aerospace, Integrated Systems, Landwards and Guided Weapons domains to be executed in the current Corporate Plan period. The first major order (Middle East Client G6 Upgrades worth more than R2bn) is in the final negotiation stage. All of these planned efforts are aimed at increasing revenue and margins for sustainability, while the focus shifts to long-term business for growth.

CONCLUSION

Given the challenges and mitigations outlined above Denel proposed financial statements on a going concern basis, with the board expecting that the risks will be reduced by contracts to the tune of R3.9bn which have been signed in 2024, coupled with the actions initiated by management to address non-performances/inefficiencies, the board's action to the stabilise the leadership by appointment of the Group Chief Executive Officer in Feb 2024, Chief Audit Executive on 10 May 2024 and eminent appointment of the Group Chief Financial Officer on 24 June 2024. The board, accordingly, 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.

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 has noted the report of the Audit and Risk Committee and is concerned with the progress made in improving the internal control environment. This has been further

evidenced by the report of the auditors on this matter. The key focus is the improvement on internal controls in the following financial year. A Chief Internal Executive CIE has been appointed to ensure an improved internal control environment within Denel.

PFMA COMPLIANCE

Section 55(2)(b)(i) of the PFMA requires the particulars of any irregular, fruitless and wasteful expenditure, as well as material losses due to criminal conduct, to be disclosed in the annual financial statements. The group identified and reported irregular expenditure of R28m (2021/22: R21m), (2020/21: R68m). The Board requested management to conduct a full audit of all material supply chain purchases and to review the irregular expenditure identified. Furthermore, the implementation of an updated supply chain policy and procedures has reduced irregular expenditure recognised when compared to the irregular expenditure that was reported in 2021/22 financial year. This encouraged the Board although it still has to consider possible condonement and actions to be taken against individuals not found to have followed the policy and legislation. The reduction in annual irregular expenditure is as a result of the implementation of the following measures:

- Updated Procurement Policy & DoA
- Introduction of interim compliance unit
- Improved communication with National Treasury
- Improved transactional review process

INVESTIGATIONS BY THE ZONDO COMMISSION

The Judicial Commission of Inquiry into State Capture (the Commission) released its report on Denel with a single recommendation. This relates to a delinquency application against the previous board and is being handled by CIPRO.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in note 6 and 7 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. During the year, Denel issued its B shares at par value of R1 as follows:

	No of shares	Share premium
28-Jul-22	51	5 192 420,50
28-Sep-22	1954	195 464 886,73
19-Dec-22	23	2 310 379,74
29-Mar-23	33 780	3 377 966 220
30-Mar-23	17	1 730 268

DIVIDENDS

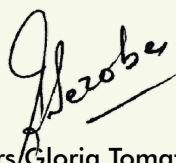
No dividend was recommended for the 2022/23 year (2021/22: Rnil).

AUDITORS

The consolidated Annual Financial Statements are audited by Auditor General of South Africa. The statutory auditor for the forthcoming year will be confirmed at the AGM.

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.



Mrs Gloria Tomatoe Serobe
Chairperson of the Board Denel SOCGroup

DIRECTORATE

There have been no resignations during the financial year ending 31 March 2023.

Further details regarding the Board of Directors are discussed on pages 15 to page 16.

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
0046
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 42 page 164 to 165 of the Annual Financial Statements.



OT Monaheng
Chief Executive Officer 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

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (ARC) presents this report for the financial year that ended on 31 March 2023 in terms of the requirements of the Public Finance Management Act (PFMA), Section 94(7) (f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa for the financial year.

The role of the Committee (page 32) is defined in its mandate and includes its statutory duties; and assistance to the Board with the oversight of financial and non-financial reporting and disclosure, internal control system, internal and external audit functions, risk management, and combined assurance including information technology and governance.

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

ARC ROLES AND RESPONSIBILITIES

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

		Q1 (April – June 2022)		Q2 (July - Sept. 2022)	Q3 (Oct. – Dec. 2022)		Q4 (Jan. – Mar. 2023)
COMMITTEE MEMBER	Total	Special 29 April 2022	24 May 2022	20 Sept. 2022	28 Oct. 2022	Special 30 Nov. 2022	30 Jan. 2023
Ms AMSS Mokgabudi (chairperson)	6/6	VP	VP	VP	VP	VP	VP
Mr TH Magazi	6/6	VP	VP	VP	VP	VP	VP
Mr MM Mnisi	6/6	VP	VP	VP	VP	VP	VP
Ms MMT Ramano	4/6	VP	VP	A	VP	A	VP

A = Apology

VC= Video Conference

VP = Virtual Platform

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

Internal controls

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

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

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

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

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

Going Concern

The Committee reviewed management's assessment of the going-concern premise of the group and the company, and recommended to the Board that the group and the company could be considered a going concern for the foreseeable future. In performing its assessment, the Committee considered the cashflow projections and its flexibility to the receipt of the recapitalisation and the sale of non-core assets. The Committee also considered management progress in implementing the turnaround strategy. The aspects considered in the going concern assessment have been detailed on note 41 on page 160.

External Auditors

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

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2021, 2022 and 2023 financial year.

Financial Statements and accounting practices

The Committee reviewed the consolidated annual financial statements of the group and company as well as the accounting policies and practices of the group. The committee considered the key judgements, estimates and accounting for significant transactions in the annual financial statements. The Committee is severely concerned by the repeat disclaimer of the Auditor General on the Annual Financial Statements. Given the continued challenges, a thorough review of the findings and concrete remedial plans will be crucial to improve the audit opinion. This will continue as a key action during 2023/24.

Expertise and knowledge of the GCFO and Finance function.

The Committee reviewed the financial effectiveness of the finance function and concluded that there remains a capacity gap with the appropriate skills across Denel. The Committee further noted the Auditor General's report in its commentary about the improvements required to achieve proper record keeping, and regular processing and reconciling of transactions. The Committee will regularly review and monitor management's plans to address these deficiencies.

Key focus areas of the meetings:

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

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

Key focus areas for the 2023/24 financial year:

- Monitor improvement of the internal control environment as it remains a area of concern;
- Re-establishment of the Internal audit function;
- Monitor execution of the turnaround plan;
- Monitor improvement on operational delivery, revenue generation and liquidity;
- Monitor improvement on regulatory compliance;
- Monitor improvement of the ICT control environment;
- Review and monitor the remedial plans of the external audit findings;
- Continuous monitoring of the risk exposure;
- Ensure that the combined assurance is in place and applied;
- Risk Management;
- Internal Audit;
- Combined Assurance;
- Legal and Regulatory & Corporate Governance requirements;
- Annual Financial Statements;
- Subsequent Events.

Internal audit

The Board has decided to adopt a hybrid model for the internal audit function. This was considered the most efficient manner to support the combined assurance model with in-house skills that will strengthen the understanding of the business whilst sourcing specialist skills from the market as and when required. A Chief Internal Executive CIE has been appointed. to ensure an improved internal control environment within Denel.

Risk Management

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

COMBINED ASSURANCE

Our combined assurance model includes a combination of supervision, management and assurance across various functions of the business from divisional level to group level and is accompanied by an oversight by ARC and the Board. This approach seeks to enable an effective control environment, provide reasonable assurance and support the integrity of information for decision-making and reporting to stakeholders.

SUPERVISION**Operations and supervisory oversight**

Implementation of internal controls and risk management processes within operating divisions of Denel to ensure a high-performing and sustainable operating environment.

OPERATIONAL MANAGEMENT**Management and review functions**

Assurance over the adequacy of operational risk management, effective adherence to internal control processes and delivery against objectives.

FUNCTIONAL MANAGEMENT**Specialised control functions**

Development and maintenance of internal control frameworks and policies, reviewing and monitoring.

Risk, resilience and compliance

Assurance over risk and resilience as well as compliance management practices and processes.

ASSURANCE**External audit**

Independent reasonable assurance of the annual financial statements.

Internal audit

Assurance over the adequacy and effectiveness of risk management, internal control and governance.

OVERSIGHT

Board and ARC

Consider control deficiencies and risk affecting the organisation, and provide guidance.

Legal and Regulatory & and public policy compliance

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

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

Subsequent Events

Refer to note 42 on page 164 - 165 for details on events after the reporting period.

CONCLUSION

The Committee has evaluated the financial statements of Denel and the Group for the year ending 31 March 2023 and considers that they comply, other than the matters disclaimed in the external auditor's report, with the requirements of the Companies Act, the PFMA and the International Financial Reporting Standards. The committee has recommended to the Board that Denel be reported as a going concern.

The Committee recommended the consolidated Annual Financial Statements / Annual Report for the year ended 31 March 2023 for approval by the Board on 31 May 2024.

On behalf of the Audit and Risk Committee.



Ms T Mokgabudi
Chairperson of the Audit and Risk Committee

DIRECTORS' RESPONSIBILITIES AND APPROVAL

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

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

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

The directors are 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 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 annual financial statements. The annual financial statements have been examined by the group's external auditors and their report is presented on pages 51 to 64.

The annual financial statements set out on pages 69 to 167, which have been prepared on the going concern basis, were approved by the directors on 31 May 2024 and were signed on their behalf by:

Approval of financial statements

Mrs Gloria Tomatoe Serobe
Acting Chairperson of the Board


Mr O T Monaheng
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 69 to 167, which comprise the consolidated and separate statement of financial position as at 31 March 2023, the 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 41 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 41 to the consolidated and separate financial statements.

Property, plant and equipment

4. 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.
5. 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.
6. Furthermore, the group did not assess property, plant and equipment for indicators of impairment in accordance with IAS 36, *Impairment of assets*. I was unable to determine the impact on the property, plant and equipment amount, as it was impracticable to do so.
7. Consequently, I was unable to determine the impact on the following items in note 2 to the consolidated and separate financial statements (respectively) as it was impracticable to do so:
 - Property, plant and equipment stated at R616 million (2021-22: R649 million; 2020-21: R714 million) and R496 million (2021-22: R519 million; 2020-21: R584 million).

- Depreciation stated at R25 million (2021-22: R29 million; 2020-21: R34 million) and R32 million (2021-22: R13 million; 2020-21: R13 million).
- Impairment loss stated at R4 million (2021-22: R5 million; 2020-21: R41 million) and R2 million (2021-22: R0 million; 2020-21: R41 million).

Intangible assets

8. During 2022, I was unable to verify the intangible assets recognised by the group. I was unable to determine the exact impact to 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) and R32 million (2020-21: R36 million) to the corresponding figures in note 5 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 intangible assets in the current period.

Right-of-use assets

9. During 2022, the group did not measure right-of-use of assets in accordance with the requirements of International Financial Reporting Standards (IFRS) 16, *Leases*. Right-of-use assets were not calculated using the present value of remaining lease payments, resulting in right-of use assets 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. Consequently, I was unable to determine the impact on the right-of-use asset, stated at R23 million (2020-21: R295 million) and R23 million (2020-21: R295 million) to the corresponding figures in note 3 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 right-of-use assets in the current period.
10. In addition, 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 is impracticable to do so.

Investment in associates and income from equity accounted investments

11. During 2022, 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. I was unable to confirm the investment in associates by alternative means. Consequently, I was unable to determine the impact on the investment in associates, stated at R1 109 million (2020-21: R1 098 million) to the corresponding figures in note 10 to the consolidated financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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.
12. 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 application of IAS 28 principles, which resulted in investment in associates disclosed in note 7 to the consolidated financial statements being overstated by R217 million (2021-22: R123 million; 2020-21: R123 million) and income from equity accounted investment overstated by R94 million.
13. 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 7 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.

Deferred tax and taxation

14. 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.
15. 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.
16. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:
 - Deferred tax asset stated at R352 million (2021-22: 244 million; 2020-21: R195 million) and R86 million (2021-22: -R2 million; 2020-21: -R2 million) in notes 12 to the consolidated and separate financial statements, respectively
 - Deferred tax liability stated at R4 million (2021-22: R2 million; 2020-21: R2 million) and R262 million (2021-22: R244 million; 2020-21: R195 million) in the consolidated financial statements and note 12 to the consolidated financial statement
 - Taxation stated at -R12 million (2021-22: R34 million; 2020-21: R48 million) and -R4 million (2021-22: R0 million; 2020-21: -R1 million) in note 32 to the consolidated and separate financial statements, respectively.

Inventories

17. I was unable to obtain sufficient appropriate audit evidence for inventories, due to 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. Further, 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.
18. 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.
19. Consequently, I was unable to determine whether any adjustments were necessary to the following line items:
 - Inventories stated at R1 880 million (2021-22: R1 434 million; 2020-21: R1 722 million) and R1 801 million (2021-22: R1 366 million; 2020-21: R1 610 million) in note 13 to the consolidated and separate financial statements, respectively.
 - Cost of sales stated at R1 286 million (2021-22: R1 400 million; 2020-21: R1 849 million) and R1 282 million (2021-22: R1 350 million; 2020-21: R1 967 million) in note 26 to the consolidated and separate financial statements, respectively.

Loans receivable (at amortised cost)

20. Denel SOC Limited did not assess loans receivable (at amortised costs) for the expected credit losses as required by IFRS 9, *Financial instruments*. I was unable to determine the value of the misstatement as it was impracticable to do so.

Trade and other receivables

21. 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 R601 million (2021-22: R981 million; 2020-21: R648 million) and R514 million (2021-22: R767 million; 2020-21: R615 million) in note 9 to the consolidated and separate financial statements, respectively.

Contract assets

22. 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. 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 R590 million (2021-22: R558 million; 2020-21: R907 million) and R579 million (2021-22: R547 million and 2020-21: R896 million) in note 10 to the consolidated and separate financial statements.
23. The group did not correctly recognise and measure advance payments due to inadequate controls to reconcile financial statements to underlying transactions and records, as well as incorrect application of IFRS 9, *Financial Instruments*. Advance payments made were not assessed for expected credit losses in accordance with IFRS 9, *Financial Instruments*. Furthermore, the balance included transactions that do not meet the requirements of advance payments and advance payments were not always derecognised when utilised. I was unable to determine the value of the misstatement as it was impracticable to do so.
24. During the 2022, 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 R167 million (2020-21: R280 million) to the corresponding figures to the separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 payments made in the current period.

Cash and cash equivalents

25. I was unable to obtain sufficient appropriate audit evidence that foreign bank accounts 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 R3 770 million (2021-22: R507 million; 2020-21: R554 million) and R3 765 million (2021-22: R502 million; 2020-21: R505 million) in note 15 to the consolidated and separate financial statements.

Non-current assets held for sale

26. 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.

27. The group did not correctly measure the non-current assets held for sale that cease to be classified as held for sale in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, as the group did not adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. I was unable to determine whether any adjustments were necessary to the non-current assets held for sale and investment in associates as it was impracticable to do so.
28. 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 is impracticable to do so.
29. At Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, I was unable to obtain sufficient appropriate audit evidence for non-current assets held for sale due to the status of record keeping. I was unable to confirm the non-current assets held for sale by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to non-current asset held for sale stated at R1 010 million (2021-22: R201 million; 2020-21: R190 million) in note 23 of the consolidated financial statements.

Provisions

30. The group did not have adequate internal control systems to reconcile the financial statements to the underlying accounting records and account for all the provisions as required by IAS 37, *Provisions, contingent assets and contingent liabilities* resulting in understatement of provisions included in the annual financial statements. I was unable to determine the value of the misstatement, as it was impracticable to do so.
31. During 2022, I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of the records keeping. I could not confirm the provisions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to provisions stated at R551 million (2020-21: R561 million) and R465 million (2020-21: R473 million) to the corresponding figures in note 20 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 provisions in the current period.

Inventories

32. During 2022, 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* resulting to trade and other payables overstated by R87 million and understated by 2020:21: R161 million. My audit opinion on the financial statements for the period ended 31 March 2022 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 trade and other payables in the current period.
33. I was unable to obtain sufficient appropriate audit evidence for trade and other payables due to a lack of proper record keeping and 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 653 million (2021-22: R2 470 million; 2020-21: R1 774 million) and R2 427 million (2021-22: R2 011 million; 2020-21: R1 561 million) in note 22 to the consolidated and separate financial statements.

Advance payments received and contract liabilities

34. During 2022, the group did not have adequate internal control systems to recognise and account for all the advance payments received transactions, as required by IAS 1, *Presentation of financial statements and conceptual framework* resulting to advance payments received understated by R98 million (2020-21: R98 million). My audit opinion on the financial statements for the period ended 31 March 2022 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 payments received in the current period.

35. At Denel Vehicle System (Proprietary) Limited, a subsidiary of Denel SOC Limited, I was unable to obtain sufficient appropriate audit evidence for advance payments received due to a lack of proper record keeping. I was unable to confirm the advance payments received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated financial statements, respectively:
- Advance payments received stated at R2 446 million (2021-22: R2 572 million; 2020-21: R2 658 million) in note 21.
 - Revenue stated at R1 469 million (2021-22: R1 387 million; 2020-21: R2 315 million) in note 24.
 - Cost of sales stated at R1 286 million (2021-22: R1 400 million; 2020-21: R1 850 million) in note 26.
36. In addition, 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 further adjustments were necessary to contract liabilities stated at R1 437 million (2021-22: R1 403 million; 2020-21: R1 463 million) in note 19 to the consolidated financial statements.

Lease liabilities

37. During 2022, the group did not calculate lease liability using the present value of remaining lease payments, as required by IFRS 16, *Leases*, resulting in the lease liabilities being overstated by 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. Consequently, I was unable to determine the impact on the lease liability, stated at: R180 million (2020-21: R341 million) and R180 million (2020-21: R341 million) to the corresponding figures in note 3 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 lease liability in the current period.
38. In addition, 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 as required by IFRS 16, *Leases*.

Loans and borrowings

39. During 2022, I was unable to verify the loans and borrowings recognised by the group. I was unable to determine the exact impact to loans and borrowings by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to loans and borrowings stated at R446 million (2020-21: R3 423 million) and R446 million (2020-21: R3 394 million) to the corresponding figures in note 18 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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

40. During 2022, I was unable to obtain sufficient appropriate 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 corresponding figures in note 17 to the consolidated financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 reserves in the current period.

Revenue

41. I was unable to obtain sufficient appropriate audit evidence for revenue due to inadequate accounting systems and a lack of proper record keeping. I could not confirm revenue by alternative means.
42. In addition, revenue from sales of goods: foreign was classified as interest revenue which were not in accordance with IFRS 15, *Revenue from contracts with customers*. Revenue from sale of goods: foreign is understated and interest revenue overstated by R344 million (2021-22: R263 million; 2020-21: R873 million) and R330 million (2021-22: R281 million; 2020-21: R777 million) to note 24 of the consolidated and separate financial statements.
43. 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*.
44. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively:
 - Revenue stated at R1 469 million (2021-22: R1 387 million; 2020-21: R2 315 million) and R1 435 million (2021-22: R1 320 million; 2020-21: R2 156 million) in note 24.
 - Cost of sales stated at R1 286 million (2021-22: R1 400 million; 2020-21: R1 850 million) and R1 282 million (2021-22: R1 350 million; 2020-21: R1 967 million) in note 26.
 - Trade and other receivables stated at R601 million (2021-22: R981 million; 2020-21: R648 million) and R514 million (2021-22: R767 million; 2020-21: R615 million) in note 9.
 - Contract assets stated at R590 million (2021-22: R558 million; 2020-21: R907 million) and R579 million (2021-22: R547 million; 2020-21: R896 million) in note 10.

Cost of sales and other operating expenditure

45. 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 could not confirm the cost of sales and other operating expenses by alternative means.
46. 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.
47. Consequently, I was unable to determine whether any adjustments were necessary to the following line items in the consolidated and separate financial statements, respectively:
 - Cost of sales stated at R1 286 million (2021-22: R1 400 million; 2020-21: R1 850 million) and R1 282 million (2021-22: R1 350 million; 2020-21: R1 967 million) in note 26.
 - Other operating expenses stated at R1 007 million (2021-22: R819 million; 2020-21: R1 358 million) and R933 million (2021-22: R633 million; 2020-21: R907 million).
 - Trade and other payables stated at R2 653 million (2021-22: R2 470 million; 2020-21: R1 774 million) and R2 427 million (2021-22: R2 011 million; 2020-21: R1 561 million) in note 22.
 - Accumulated loss stated at R12 302 million (2021-22: R12 507 million; 2020-21: R11 393 million) and R13 271 million (2021-22: R13 388 million; 2020-21: R12 223 million) to the consolidated and separate financial statements, respectively.

Finance cost

48. During 2022, I was unable to obtain sufficient appropriate audit evidence for finance cost due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the finance cost by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance cost stated at R377 million (2020-21: R501 million) and R381 million (2020-21: R483 million) to the corresponding figures in note 31 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 finance cost in the current period.

Investment income

49. During 2022, I was unable to obtain sufficient appropriate audit evidence for investment income due to inadequate controls to reconcile the financial statements to underlying accounting records. I could not confirm the investment income by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment income stated at R12 million (2020-21: R29 million) and R10 million (2020-21: R28 million) to the corresponding figures in note 31 to the consolidated and separate financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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 investment income in the current period.

Other operating income

50. During 2022, 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 2020-21: R1 468 million to the corresponding figures in note 27 to the consolidated financial statements. My audit opinion on the financial statements for the period ended 31 March 2022 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.

Irregular expenditure

51. 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 43 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.
52. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure disclosed at R39 million (2021-22: R43 million and 2020-21: R152 million) and R0 million (2021-22: R26 million and 2020-21: R23 million) in note 43 to the consolidated and separate financial statements.

Fruitless and wasteful expenditure

53. 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.

54. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure disclosed at R0 million (2021-22: R40 million; 2020-21: -R72 million) and R0 million (2021-22: R40 million; 2020-21: -R74 million) in note 44 to the consolidated and separate financial statements.

Statement of cash flows

55. The group did not correctly calculate, prepare and disclose the cash flows statement, as required by IAS 7, *Statement of cash flows*. There were multiple errors in determining cash flows in the 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 below were necessary.
- Net cash flows from operating activities, stated at -R71 million (2021-22: -R91 million; 2020-21: -R94 million) and -R16 million (2021-22: -R57 million; 2020-21: -R311 million).
 - Net cash flows from investing activities, stated at R30 million (2021-22: -R21 million; 2020-21: -R98 million) and -R39 million (2021-22: -R17 million; 2020-21: R52 million).
 - Net cash flows from financing activities, stated at R3 303 million (2021-22: R63 million; 2020-21: R123 million) and R3 315 million (2021-22: R71 million; 2020-21: R195 million).

Trade and other payables

56. 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 37 of the consolidated and separate financial statements. I have not included the omitted information in this auditor's report, as it was impracticable to do so.
57. 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 37 of the consolidated and separate financial statements.

Contingent liabilities

58. 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, site restoration and counter trade information disclosed in note 36. I was unable to confirm the contingent liabilities by alternative means.
59. In addition, the group did not account for contingent liabilities in accordance with requirements of IAS 37, *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.
60. Consequently, I was unable to determine whether any adjustments were necessary to the contingent liabilities amounts disclosed in note 36 to the consolidated and separate financial statements.

Financial Instruments and risk management

61. 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.

Prior period error

62. I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed in note 39 to the consolidated and separate financial statements due to a lack of proper record keeping. In addition, the nature and the amount of the correction for some consolidated and separate financial statement items affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 39 to the consolidated and separate financial statements.

Segment reporting

63. 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 24, as it was impracticable to do so.

Other matters

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

Merger of Denel Vehicle System Proprietary Limited, Denel Land Systems and Denel PMP into new Denel Landward division

65. The approved turnaround plan for strategic restructuring of Denel SOC Ltd includes the full disposal of Denel Vehicle System Proprietary Limited and incorporating it as part of the new Denel Landward division of Denel Soc Ltd. Denel Soc Ltd is currently embarking on a process to merge Denel Vehicle Systems Proprietary Limited with Denel Land Systems and Denel PMP to form the new Denel Landwards division of Denel Soc Ltd.

National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework

66. On 23 December 2022, the National Treasury issued Instruction Note 4 of 2022-23, which came into effect on 3 January 2023, in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA. The instruction note deals with the PFMA compliance and reporting framework and addresses, among others, the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Irregular expenditure and fruitless and wasteful expenditure incurred in prior financial years and not yet addressed no longer need to be disclosed in the disclosure notes to the annual financial statements. Only the current year and prior year figures are disclosed in notes 43 and 44 to the financial statements of Denel SOC Ltd and its subsidiaries. Movements in respect of irregular expenditure and fruitless and wasteful expenditure also no longer need to be disclosed in the notes to the annual financial statements. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now included as part of the other information in the annual report of the auditees. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

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

67. 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 International Financial Reporting Standards (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.

68. 68. 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

69. 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.
70. 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

71. 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.
72. 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

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

Annual financial statements and performance, annual report

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. A corporate plan was not prepared covering the affairs of that public entity for 2022-23 financial year, as required by section 52(b) of the PFMA.
79. An annual shareholder's compact was not prepared for the 2022-23 financial year, as required by treasury regulation 29.2.1.

SOE oversight and governance

80. 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.
81. 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

82. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the disclaimer of opinion the value disclosed in note 43 of the financial statements does not reflect the full extent of the irregular expenditure incurred.
83. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for disclaimer opinion, the amount of fruitless and wasteful expenditure disclosed in note 44 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred. Most of the fruitless and wasteful expenditure disclosed in the financial statements was caused by interest and penalties incurred on late payments, late delivery on orders and non-compliance with statutory requirements.

Revenue management

84. 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.

Asset management

85. Loans were provided to Denel Vehicle System (Pty) Ltd, which the board authorised without considering whether the liquidity and solvency tests were still satisfied after providing the financial assistance, as required by section 45(3)(b)(i) of the Companies Act.
86. Loans were provided to Denel Vehicle Systems (Pty) Ltd, which were not approved by way of a special resolution adopted by the shareholder within the previous two years, as required by section 45(3)(a)(ii) of the Companies Act.

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. Instability in leadership has 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 lacks a proper record-keeping system to ensure that information is readily available when requested for audit. This has 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.
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 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

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information and on the public entity's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the public entity and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act 1 of 1999 (PFMA)	Section 50(3) Section 50(3)(a) Section 50(3)(b) Section 51(1)(a)(ii) Section 51(1)(a)(iii) Section 51(1)(a)(iv) Section 51(1)(b) Section 51(1)(b)(i) Section 51(1)(b)(ii) Section 51(1)(e)(iii) Section 52(b) Section 53(4) Section 54(2)(c') Section 54(2)(d) Section 55(1)(a) Section 55(1)(b) Section 55(1)(c)(i) Section 56 Section 57(b) Section 57(d) Section 66(3)(a)
National Treasury Regulations 2001	Regulation 29.1.1 Regulation 29.1.1(a) Regulation 29.1.1(c) Regulation 29.2.1 Regulation 29.2.2 Regulation 29.3.1 Regulation 31.2.5 Regulation 31.2.7(a) Regulation 33.1.1 Regulation 33.1.3
Companies Act 71 of 2008	Sect 30(3)(b)(i) Section 33(1)(a) Sections 45(2) Section 45(3)(a)(ii)

Legislation	Sections or regulations
	Section 45(3)(b)(i) Section 45(3)(b)(ii) Section 45(4) Section 46(1)(a) Section 46(1)(b) Section 46 (1) (c') Section 72 (4) (a) Section 75 (6) Section 86(1) Section 86 (4) Section 88 (2)(d) Section 112(2)(a) Section 129(7)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Companies Regulations	Regulation 30(2); Regulations 43(2)(a)
Construction Industry Development Board Act No.38 of 2000 (CIDB)	Section 18(1) Section 22(3)
CIDB Regulations	CIDB regulation 17; CIDB regulation 18(1A)1; CIDB regulation 25(1); CIDB regulation 25 (5) & CIDB regulation 25(7A)
Preferential Procurement Policy Framework Act 5 of 2000	Section 1 Section 2(1)(a) Section 2(1)(b) Section 2(1)(f)
Preferential Procurement Regulations, 2017	Paragraph 4(1) Paragraph 4(2) Paragraph 5(1) Paragraph 5(3) Paragraph 5(6) Paragraph 5(7) Paragraph 6(8) Paragraph 7(8) Paragraph 8(2) Paragraph 8(5) Paragraph 9(1) Regulation 9(2) Paragraph 10(1) Paragraph 10(2) Paragraph 11(1) Paragraph 12(1) Paragraph 12(2)

Legislation	Sections or regulations
Preferential Procurement Regulations, 2022	Paragraph 3(1) Paragraph 4(1) Paragraph 4(2) Paragraph 4(3) Paragraph 4(4) Paragraph 5(1) Paragraph 5(2) Paragraph 5(3) Paragraph 5(4)
NT SCM Instruction Note 03 2021/22	Paragraph 4(3) Paragraph 4(4) Paragraph 4(4)(c) Paragraph 4(4)(d) Paragraph 4(6) Paragraph 5(4)
NT SCM Instruction 4A of 2016/17	Paragraph 5
Second amendment of NTI 05 of 2020/21	Paragraph 4(8) Paragraph 4 (9) Paragraph 5 (1) Paragraph 5 (3)
NT SCM Instruction Note 11 2020/21	Paragraph 3(1) Paragraph 3.4(b) Paragraph 3.9
NT instruction note 4 of 2015/16	Paragraph 3 (4)
Erratum NTI 5 of 202/21	Paragraph 1 Paragraph 2
NT instruction note 5 of 2020/21	Paragraph 5.1 Paragraph 5.3

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

		Group			Company		
Figures in Rand million	Notes	2023	2022 Restated *	2021 Restated *	2023	2022 Restated *	2021 Restated *
Assets							
Non-Current Assets							
Property, plant and equipment	2	616	649	714	496	519	584
Right-of-use assets	3	114	23	295	114	23	295
Investment property	4	246	898	863	246	898	863
Intangible assets	5	54	62	66	24	32	36
Investments in subsidiaries	6	-	-	-	-	-	8
Investments in Associates	7	1,119	1,109	1,098	371	371	371
Deferred tax	12	356	246	197	90	-	-
		2,505	2,987	3,233	1,341	1,843	2,157
Current Assets							
Inventories	13	1,880	1,434	1,722	1,801	1,366	1,610
Loans receivable (at amortised cost)	8	-	-	-	168	-	-
Trade and other receivables	9	601	981	648	514	767	615
Contract assets	10	590	558	907	579	547	896
Prepayments		213	152	273	232	167	280
Current tax receivable	14	19	13	11	-	-	-
Post Retirement Medical Aid		1	1	1	1	1	1
Cash and cash equivalents	15	3,770	507	554	3,765	502	505
		7,074	3,646	4,116	7,060	3,350	3,907
Non-current assets held for sale and assets of disposal groups	23	1,010	201	190	749	56	56
Total Assets		10,589	6,834	7,539	9,150	5,249	6,120
Equity and Liabilities							
Equity							
Share capital	16	15,204	11,621	8,552	15,204	11,621	8,552
Reserves	17	53	77	141	29	29	29
Accumulated loss		(12,302)	(12,507)	(11,393)	(13,271)	(13,388)	(12,223)
		2,955	(809)	(2,700)	1,962	(1,738)	(3,642)
Liabilities							
Non-Current Liabilities							
Borrowings	18	-	100	290	-	100	290
Contract liabilities	19	47	42	43	47	42	43
Advanced payments received		136	2,085	2,071	136	2,085	2,071
Deferred tax	12	4	2	2	4	2	2
Provisions	20	386	390	394	306	308	312
		573	2,619	2,800	493	2,537	2,718

* See Note 39

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

		Group			Company		
Figures in Rand million	Note(s)	2023	2022 Restated *	2021 Restated *	2023	2022 Restated *	2021 Restated *
Current Liabilities							
Trade and other payables	22	2,653	2,470	1,774	2,427	2,011	1,561
Borrowings	18	278	346	3,133	296	346	3,104
Lease liabilities	3	242	180	341	242	180	341
Contract liabilities	19	1,390	1,361	1,420	1,363	1,327	1,386
Provisions	20	106	161	167	102	157	161
Advanced payments received	21	2,310	487	587	2,240	410	503
Bank overdraft	15	35	19	17	21	19	17
		7,014	5,024	7,439	6,691	4,450	7,073
Liabilities of disposal groups	23	48	-	-	-	-	-
Total Liabilities		7,635	7,643	10,239	7,184	6,987	9,791
Total Equity and Liabilities		10,590	6,834	7,539	9,146	5,249	6,149

* See Note 39

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Figures in Rand million	Notes	Group			Company		
		2023	2022 Restated *	2021 Restated *	2023	2022 Restated *	2021 Restated *
Revenue	24	1,469	1,387	2,315	1,435	1,320	2,156
Cost of sales	26	(1,286)	(1,400)	(1,849)	(1,282)	(1,350)	(1,967)
Gross profit (loss)		183	(13)	466	153	(30)	189
Other operating income	27	1,163	129	1,468	1,160	137	555
Other operating gains (losses)	28	(42)	(38)	(497)	(42)	(38)	(410)
Other operating expenses		(1,007)	(819)	(1,358)	(933)	(633)	(907)
Operating profit (loss)	29	297	(741)	79	338	(564)	(573)
Investment income	30	23	12	29	23	10	28
Finance costs	31	(450)	(377)	(501)	(449)	(381)	(483)
Income from equity accounted investments		74	86	(82)	-	-	-
Loss before taxation		(56)	(1,020)	(475)	(88)	(935)	(1,028)
Taxation	32	(12)	34	48	(4)	-	(1)
Loss for the year		(68)	(986)	(427)	(92)	(935)	(1,029)
Other comprehensive income:							
Items that will not be reclassified to profit or loss:							
Share of comprehensive income of equity accounted investments		(24)	(64)	47	-	-	-
Other comprehensive income for the year net of taxation		(24)	(64)	47	-	-	-
Total comprehensive loss for the year		(92)	(1,050)	(380)	(92)	(935)	(1,029)

* See Note 39

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Revaluation reserve	Reserve for valuation of financial instruments	Total reserves	Accumulated loss	Total equity
Figures in Rand million								
Group								
Restated* Balance at 01 April 2021	1,225	7,327	8,552	141	112	253	(11,393)	(2,588)
Loss for the year	-	-	-	-	-	-	(905)	(905)
Other comprehensive income	-	-	-	(64)	(64)	(128)	-	(128)
Total comprehensive Loss for the year	-	-	-	(64)	(64)	(128)	(905)	(1,033)
Issue of shares	-	3,069	3,069	-	(48)	(48)	-	3,021
Dividends	-	-	-	-	-	-	(4)	(4)
Total contributions by and distributions to owners of company recognised directly in equity	-	3,069	3,069	-	(48)	(48)	-	3,017
Balance at 01 April 2022	1,225	10,396	11,621	77	-	77	(12,234)	(536)
Loss for the year	-	-	-	-	-	-	(68)	(68)
Other comprehensive income	-	-	-	(24)	-	(24)	-	(24)
Total comprehensive Loss for the year	-	-	-	(24)	-	(24)	(68)	(92)
Adjustments	-	3,583	3,583	-	-	-	-	3,583
Total contributions by and distributions to owners of company recognised directly in equity	-	3,583	3,583	-	-	-	-	3,583
Balance at 31 March 2023	1,225	13,979	15,204	53	-	53	(12,302)	2,955
Notes	16&20	16	16	17				

* See Note 39

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Revaluation reserve	Reserve for valuation of financial instruments	Total reserves	Accumulated loss	Total equity
Figures in Rand million								
Company								
Restated* Balance at 01 April 2021	1,225	10,396	11,621	29	-	29	(12,286)	(636)
Loss for the year	-	-	-	-	-	-	(935)	(935)
Total comprehensive Loss for the year	-	-	-	-	-	-	(935)	(935)
Adjustment	-	-	-	-	-	-	(220)	(220)
Total contributions by and distributions to owners of company recognised directly in equity	-	-	-	-	-	-	(220)	(220)
Balance at 01 April 2022	1,225	10,396	11,621	29	-	29	(13,179)	(1,529)
Loss for the year	-	-	-	-	-	-	(92)	(92)
Total comprehensive Loss for the year	-	-	-	-	-	-	(92)	(92)
Issue of shares	-	3,583	3,583	-	-	-	-	3,583
Total contributions by and distributions to owners of company recognised directly in equity	-	3,583	3,583	-	-	-	-	3,583
Balance at 31 March 2023	1,225	13,979	15,204	29	-	29	(13,271)	1,962
Note(s)	16&20	16	16	17				

* See Note 39

STATEMENT OF CASH FLOWS

		Group			Company		
Figures in Rand million	Notes	2023	2022 Restated *	2021 Restated *	2023	2022 Restated *	2021 Restated *
Cash flows from operating activities							
Cash used (generated) in operations	34 30	356	341	381	410	370	144
Interest income		23	17	25	23	11	25
Finance costs	31	(450)	(382)	(500)	(449)	(383)	(480)
Dividends paid		-	(4)	-	-	-	-
Tax paid	35	-	(63)	-	-	(55)	-
Net cash from operating activities		(71)	(91)	(94)	(16)	(57)	(311)
Cash flows from investing activities							
Purchase of property, plant and equipment	2	(59)	(21)	(69)	(55)	(17)	(1)
Proceeds from sale of property, plant and equipment	2	89	-	-	16	-	53
Purchases of intangible assets	5	-	-	(29)	-	-	-
Net cash from investing activities		30	(21)	(98)	(39)	(17)	52
Cash flows from financing activities							
Proceeds on issue of share capital	16	3,583	3,069	576	3,583	3,069	576
Long-term borrowings		(167)	(2,922)	(149)	(148)	(2,921)	(109)
Repayments of lease liabilities		(3)	-	(26)	(3)	-	(26)
Overdraft		16	2	17	2	2	17
Advanced payment	21	(126)	(86)	(295)	(119)	(79)	(263)
Net cash from financing activities		3,303	63	123	3,315	71	195
Total cash movement for the year		3,262	(49)	(69)	3,260	(3)	(64)
Cash and cash equivalents at the beginning of the year		517	566	635	503	506	570
Cash and cash equivalents at the end of the year	15	3,779	517	566	3,763	503	506

* See Note 39

ACCOUNTING POLICIES

CORPORATE INFORMATION

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

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

Loss of control

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

Investments in associated companies

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

Separate financial statements

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

Transactions eliminated on consolidation

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

1.3 INVESTMENTS IN ASSOCIATES

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. It generally accompanies a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method, except when the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the Statement of Financial Position at cost adjusted for post-acquisition changes in the group's share of net assets of the associate, less any impairment losses.

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

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

Profits or losses on transactions between the group and an associate are eliminated to the extent of the group's interest therein. Unrealised losses are eliminated unless the transaction provides evidence of an impairment

ACCOUNTING POLICIES

of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

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

1.4 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

1.5 JUDGEMENTS AND ESTIMATES

Control or joint control

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

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

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

Deferred tax asset

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

Revenue

Revenue and profit recognition on contracts is based on estimates of future costs, as well as an assessment of

ACCOUNTING POLICIES

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

Contract risks and onerous contracts

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

Useful lives and impairment of property, plant and equipment

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

Product warranties

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

Site restoration

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

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

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

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

Countertrade

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

ACCOUNTING POLICIES

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.

Measurement of the expected credit loss allowance

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

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

1.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6.1 REVENUE RECOGNITION

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

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

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

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

ACCOUNTING POLICIES

Contract revenue

Performance obligations

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

Transaction price

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

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

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).

ACCOUNTING POLICIES

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

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

Contract modifications

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

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

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

1.6.2 PROVISIONS

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit and loss as finance cost as it occurs. Further details in this regard are contained in Note 23.

ACCOUNTING POLICIES

1.6.3 TAXES

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

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

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

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

1.6.4 FINANCIAL INSTRUMENTS

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

Financial assets

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

The group has the following classes:

Loans receivables

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

Trade and other receivables

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

ACCOUNTING POLICIES

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.

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.

ACCOUNTING POLICIES

Financial liabilities

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

1.6.5 FOREIGN CURRENCIES

Functional and presentation currency

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

Recording of foreign transactions

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

Translation of foreign currency transactions

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

1.6.6 INVESTMENT PROPERTIES

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

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

- Offices: 6.5% to 9%
- Manufacturing: 6.5% to 9%

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

ACCOUNTING POLICIES

as described in the accounting policy for leases. Transfers to or from investment property are only made where there is a change in use of the asset. Property plant and equipment transferred to Investment property will be transferred at fair value and the difference between fair value and the carrying amount will be recognised as a revaluation.

1.6.7 PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation

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

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

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

Subsequent expenditure

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

Derecognition

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

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

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

Spare parts

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

ACCOUNTING POLICIES

1.6.8 LEASES

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

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

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

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

Company as lessee

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

Lease liability

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

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

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

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

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

ACCOUNTING POLICIES

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

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

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

Right-of-use assets

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

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

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

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

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

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

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

ACCOUNTING POLICIES

Company as lessor

Leases for which the company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification.

When the company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the company applies the exemption described previously, then it classifies the sub- lease as an operating lease.

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

Operating leases

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

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

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

1.6.9 INTANGIBLE ASSETS

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

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

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

Research and development costs

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development period. Development costs initially recognised as an expense are not recognised as an asset in a

ACCOUNTING POLICIES

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

1.6.10 IMPAIRMENT

Financial assets

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

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

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

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

Trade and other receivables, contract assets and lease receivables

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

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

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

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

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

Write-off policy

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

Cash and cash equivalents

The expected credit loss of cash and cash equivalents is measured using the three-stage general measure model. The group has a policy of investing cash in financial institutions that have an investment grade credit rating which implies low credit risk and consequently categorised as a stage one with the probability of default limited to 12 months. The probability of default for an investment grade credit rating is considered immaterial at close to zero percent. The loss

ACCOUNTING POLICIES

given default applied to financial institutions in the ECL model is 60% reflecting an average global default rate for corporate bonds of 40%. The expected credit loss rates for cash and cash equivalents are therefore zero percent as a product of the probability of default and loss given default.

Non-financial assets

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

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

Reversals of impairments

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

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

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

1.6.11 INVENTORIES

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

Work-in-progress and finished products

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

ACCOUNTING POLICIES

Consumable inventories

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

1.6.12 ADVANCE PAYMENTS RECEIVED FROM REVENUE CONTRACTS

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

1.6.13 EMPLOYEE BENEFITS

Pension obligations

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

Other post-retirement obligations

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

Short-term employee benefits

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

1.6.14 COUNTERTRADE OBLIGATIONS

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

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

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

1.6.15 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (which includes a measure of the segments' assets). The chief operating decision-maker, who is

ACCOUNTING POLICIES

responsible for allocating resources and assessing the performance of the operating segments, has been identified as the EXCO of Denel SOC Ltd.

1.6.16 HEDGE ACCOUNTING

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

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

1.6.17 IRREGULAR EXPENDITURE

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. When confirmed, irregular expenditure is disclosed in the Notes to the Financial Statements at the amount equal to the value of the irregular expenditure incurred, unless it is impracticable to determine the value thereof. Where such 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.

1.6.18 FRUITLESS AND WASTEFUL EXPENDITURE

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

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

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

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

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

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

ACCOUNTING POLICIES

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

1.8 SHARE CAPITAL AND EQUITY

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

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

1.9 RELATED PARTY TRANSACTIONS

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. PROPERTY, PLANT AND EQUIPMENT

COMPANY	2023			2022			2021		
	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE	COST	ACCUMULATED DEPRECIATION	CARRYING VALUE
Land	56	-	56	56	-	56	56	-	56
Buildings	475	(263)	212	475	(260)	215	472	(258)	214
Plant and machinery	1,302	(1,126)	176	1,323	(1,117)	206	1,327	(1,089)	238
Motor vehicles	72	(62)	10	94	(80)	14	101	(66)	35
Office equipment	28	(25)	3	28	(24)	4	28	(23)	5
IT equipment	144	(126)	18	141	(122)	19	141	(114)	27
Capital - Work in progress	21	-	21	5	-	5	9	-	9
Total	2,098	(1,602)	496	2,122	(1,603)	519	2,134	(1,550)	584

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of property, plant and equipment - Group - 2023

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment reversal	Total
Land	56	-	-	-	-	-	56
Buildings	215	-	-	(10)	(1)	(2)	202
Plant and machinery	336	-	(10)	-	(18)	(2)	306
Motor vehicles	14	-	-	-	(4)	-	10
Office equipment	4	-	-	-	(1)	-	3
IT equipment	19	-	-	-	(1)	-	18
Capital - Work in progress	5	16	-	-	-	-	21
	649	16	(10)	(10)	(25)	(4)	616

Reconciliation of property, plant and equipment - Group - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment reversal	Total
Land	56	-	-	-	-	-	56
Buildings	214	2	-	-	(4)	-	212
Plant and machinery	368	-	(14)	-	(23)	5	336
Motor vehicles	35	-	(20)	-	(1)	-	14
Office equipment	5	-	-	-	(1)	-	4
IT equipment	27	-	(8)	-	-	-	19
Capital - Work in progress	9	-	-	(4)	-	-	5
	714	2	(42)	(4)	(29)	5	646

Reconciliation of property, plant and equipment - Group - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment reversal	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 ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

Reconciliation of property, plant and equipment - Company - 2023

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	56	-	-	-	-	56
Buildings	215	-	-	(3)	-	212
Plant and machinery	206	-	(3)	(25)	(2)	176
Motor vehicles	14	-	(2)	(2)	-	10
Office equipment	4	-	-	(1)	-	3
IT equipment	19	-	-	(1)	-	18
Capital - Work in progress	5	16	-	-	-	21
	519	16	(5)	(32)	(2)	496

Reconciliation of property, plant and equipment - Company - 2022

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

3. LEASES (GROUP AS LESSEE)

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

Group	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	248	(134)	114	127	(104)	23	338	(43)	295
Company	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	248	(134)	114	127	(104)	23	338	(43)	295

Net carrying amounts of right-of-use assets

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

Buildings	114	23	295	114	23	295
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Lease liabilities

Lease liabilities have been included in the borrowings line item on the statement of financial position. Refer to note 18 Borrowings.

The maturity analysis of lease liabilities is as follows:

Current liabilities	242	180	341	242	180	341
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Exposure to currency risk

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

4. INVESTMENT PROPERTY

Group	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	246	-	246	898	-	898	863	-	863
Company	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	246	-	246	898	-	898	863	-	863

	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
Fair value at 1 April	898	863	859	898	863	859
Fair value adjustment	40	35	4	40	35	4
Transfer to assets held for sale	(692)	-	-	(692)	-	-
Fair value at 31 March	246	898	863	246	898	863

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

For further details on investment properties, refer to accounting policies, 1.6.6.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

4. INVESTMENT PROPERTY (CONTINUED)

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 (6.4%- 8.8%, weighted average 9%); - Void periods (average six months after the end of each lease); - Occupancy rate (90 - 92%, weighted average 93%); - Rent-free periods (six months period on new leases required); and - Risk adjusted discount rates (12.0%, weighted average 13.6%).	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.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

5. INTANGIBLE ASSETS

Group	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer software	179	(145)	34	179	(142)	37	179	(138)	41
Intangible assets	203	(191)	12	203	(186)	17	203	(186)	17
Other intangible assets	8	-	8	8	-	8	8	-	8
Total	390	(336)	54	390	(328)	62	390	(324)	66

Company	2023			2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Software	149	(145)	4	149	(142)	7	149	(138)	11
Development Costs	203	(191)	12	203	(186)	17	203	(186)	17
Other	8	-	8	8	-	8	8	-	8
Total	360	(336)	24	360	(328)	32	360	(324)	36

Reconciliation of intangible assets - Group - 2023

	Opening balance	Amortisation	Total
Computer software, other	37	(3)	34
Intangible assets	17	(5)	12
Other intangible assets	8	-	8
	62	(8)	54

Reconciliation of intangible assets - Group - 2022

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

5. INTANGIBLE ASSETS (CONTINUED)

	Opening balance	Amortisation	Total
Computer software, other	41	(4)	37
Intangible assets 1	17	-	17
Other intangible assets	-	-	8
	66	(4)	62

Reconciliation of intangible assets - Group - 2021

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

Reconciliation of intangible assets - Company - 2023

	Opening balance	Amortisation	Total
Computer software, other	7	(3)	4
Intangible assets	17	(5)	12
Other intangible assets	8	-	8
	32	(8)	24

Reconciliation of intangible assets - Company - 2022

	Opening balance	Amortisation	Total
Computer software, other	11	(4)	7
Intangible assets	17	-	17
Other intangible assets	8	-	8
	36	(4)	32

Reconciliation of intangible assets - Company - 2021

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

6. INVESTMENTS IN SUBSIDIARIES

Unlisted shares

Accumulated impairment				836	836	2,525
				(828)	(828)	(2,517)
				8	8	8

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

Unlisted shares

Impairment for the year

Balance at 1 April

				828	828	2,517
				828	828	2,517

Company

Name of company	% holding 2023	2023			2022			2021		
		Opening balance	Carrying amount 2023	Carrying amount 2023	Opening balance	Impairment	Carrying amount 2022	Opening balance	Impairment	Carrying amount 2021
Denel Aerostructures SOC Ltd	100.00 %	-	-	-	-	-	-	1,689	(1,689)	-
Densecure SOC Ltd	100.00 %	8	-	8	8	-	8	8	-	8
Denel Vehicles Systems (Pty) Ltd	100.00 %	-	-	-	-	-	-	828	(828)	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

6. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

- Denel Aerostructure SOC Ltd, a wholly owned subsidiary of Denel SOC Ltd was placed under provisional liquidation on 31 March 2021.
- 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. In order to transfer the existing liability, the Prudential Authority requires an Insurer to submit a formal application under S50 of the Insurance Act, 18 of 2017. The application process was concluded and the Prudential Authority had formally communicated their approval to Densecure SOC Limited on 18 August 2020. Densecure was continuing an insurance business during the 2020 period but not the 2021 financial year.

Immaterial subsidiaries not consolidated

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

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

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

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

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

7. INVESTMENTS IN ASSOCIATES

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

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

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

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

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

The following facts are significant to the 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table lists all of the associates in the group:

Denel SOC Ltd - Equity partner -

Associated company	Shareholding %	Number of board members	Shareholding %	Number of board members
Rheinmetall Denel Munitions (Pty) Ltd	49	2	51	3
Hensoldt Optronics (Pty) Ltd	30	1	70	5
Barij Dynamics	49	2	51	3
Equity partner				
Rheinmetall Waffe Munition GmbH	49	2	51	3
Hensoldt Sensors GmbH	49	2	51	3
Tawazun Holding	49	2	51	3

*These investments in associates companies have been equity accounted.

Net investment in associated companies

Cost of investments in associated companies

Unlisted shares	371	371	371	371	371	371
Net share of results in associated companies	748	737	727	-	-	-
Share of current profit before tax	268	81	(107)	-	-	-
Share of current year tax	(194)	4	25	-	-	-
Share of current year profit after tax	74	86	(82)	-	-	-
Dividends paid	-	-	(39)	-	-	-
Transferred to non current asset held for sale - Hensoldt	(40)	(11)	(12)	-	-	-
Share of other comprehensive income _ fair value hedge	(24)	(64)	47	-	-	-
Impairment of Investment	-	-	(73)	-	-	-
Accumulated profit at 1 April	738	727	925	-	-	-
Net investments in associated companies	1,119	1,108	1,098	371	371	371

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

Cost of investment in associated companies

Rheinmetall Denel Munitions (Pty) Ltd	1,061	895	935	371	371	371
Barij Dynamics LLC (previously Tawazun Dynamics)	58	214	163	-	-	-
Net investments in associated companies	1,119	1,109	1,098	371	371	371

Extracts from unaudited annual financial statements

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

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

Summarised Statement of Profit or Loss and Other Comprehensive Income

	2023	2022	2021
Revenue	3,930	2,000	2,296
Group share of revenue	1,926	980	1,125
Loss before tax	(563)	61	(61)
Group share of profit/(loss) before tax	276	(29)	(29)
Profit or loss after tax	190	48	(34)
Group share of profit/(loss) after tax	93	24	(17)

Summarised Statement of Financial Position

	2023	2022	2021
Assets			
Non-current	1,092	1,056	1,122
Current	4,278	3,349	3,383
Total assets	5,370	4,405	4,505
Liabilities			
Non-current	792	248	260
Current	2,656	2,576	2,592
Total liabilities	3,448	2,824	2,852
Total net assets	1,922	1,581	1,653

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

Group's share of associated company's	941	775	815
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The other associated companies' figures are not material, thus for disclosure purposes, figures are aggregated. The following represents the summarised financial information of the associated companies other than Rheinmetall Denel Munitions (Pty) Ltd

Extracts from unaudited annual financial statements:

Summarised Statement of Profit or Loss and Other Comprehensive Income

	2023	2022	2021
Revenue	279	579	731
Group share of revenue	137	284	358
Profit or loss before tax	(113)	(64)	(51)
Group share of profit/loss before tax	(55)	(31)	(25)
Profit or loss after tax	(113)	(64)	(51)
Group share of profit/loss after tax	(55)	(31)	(25)

Dividends received from associate

Summarised Statement of Financial Position

	2023	2022	2021
Assets			
Non-current	1,226	196	239
Current	11,892	2,144	2,685
Total assets	13,118	2,340	2,924
Liabilities			
Non-current	921	168	183
Current	8,310	1,448	1,930
Total liabilities	9,231	1,616	2,113
Total net assets	3,887	724	811

8. LOANS RECEIVABLE

C IBR unsecured internal	168	-	-
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Exposure to credit risk

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
Trade receivables	637	809	616	426	611	539
Trade receivables - related parties	101	52	3	56	65	42
Loss allowance	(113)	(112)	(94)	(112)	(107)	(86)
Trade receivables at amortised cost	625	749	525	370	569	495
Deposits	6	5	5	6	5	5
Operating lease receivables (if immaterial)	(81)	115	62	64	62	62
Operating lease smoothing	50	110	56	73	129	53
Sundry gross interest	1	2	-	1	2	-
Total trade and other receivables	601	981	648	514	767	615

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

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

Exposure to currency risk

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

Rand Amount

Rand	432	981	648	514	787	615
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

10. CONTRACT ASSETS

Contract assets	603	560	909	592	549	898
Loss allowance	(13)	(2)	(2)	(13)	(2)	(2)
	590	558	907	579	547	896

Reconciliation of contract assets

Opening balance	558	907	668	547	896	620
Adjustments	-	(295)	291	-	(295)	286
IFRS change	-	-	4	-	14	4
Other	32	(54)	(56)	32	(68)	(12)
Impairment	-	-	-	-	-	(2)
	590	558	907	579	547	896

Split between non-current and current portions

Current assets	590	558	907	579	547	896
Non Current assets	-	-	-	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

11. POST-RETIREMENT OBLIGATIONS

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

11.1 DENEL MEDICAL BENEFIT TRUST (DMBT)

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

Change in defined benefit funded obligation

Present value of funded obligations at 1 April	375	375
Interest cost on projected benefit obligation	38	34
Remeasurement	(16)	(4)
Benefits paid	(30)	(30)
Present value of funded obligations at 31 March	367	375

Change in plan assets

	2022	2021
Fair value of plan assets at 1 April	1,645	1,486
Expected return on plan assets	172	141
Remeasurement	88	48
Benefits paid	(30)	(30)
Fair value of plan assets at 31 March	1,875	1,645

Fund excess	1,508	1,270
Excess not recognised	(1,508)	(1,269)
Unrecognised actuarial gains	-	1
	2022	2021

Net benefit expenses

Interest cost	38	34
Expected return on plan assets	(172)	(141)
Income	(134)	(107)

The principal actuarial assumptions used for accounting purposes were:

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

The beneficiary members from the funds are as follows:

Active members	25	32
Retired members	605	625

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

11. POST-RETIREMENT OBLIGATIONS (CONTINUED)

Figures in Rand million

Figures in Rand million

Increase	Decrease	Increase	Decrease
%	%	%	%

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

9 7 7 9

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

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

Discount rate

Variation

	Health care cost inflation	Change in past-service contractual liability	Change in funding level	Change in service cost plus interest cost
+1%	8,84	8,1%	-38,4%	8,5%
-1%	6,84	-7,2%	39,6	-7,6%

Retirement Age

Variation

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

11. POST-RETIREMENT OBLIGATIONS (CONTINUED)

11.2 DENEL RETIREMENT FUND

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

12. DEFERRED TAX

Deferred tax liability

Property plant and equipment	266	246	197	-	-	-
Other deferred tax liability	(4)	(2)	(2)	(4)	(2)	(2)
Total deferred tax liability	262	244	195	(4)	(2)	(2)

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

Deferred tax liability	262	244	195	(4)	(2)	(2)
Deferred tax asset	90	-	-	90	-	-
Total net deferred tax asset	352	244	195	86	(2)	(2)

13. INVENTORIES

Raw materials, components	1,254	712	761	1,210	655	686
Work in progress	609	627	795	491	512	660
Finished goods	287	335	356	277	325	342
Inventories	162	154	159	162	154	159
Inventories	1	2	27	1	2	27
	2,313	1,830	2,098	2,141	1,648	1,874
Inventories (write-downs)	(433)	(396)	(376)	(340)	(282)	(264)
	1,880	1,434	1,722	1,801	1,366	1,610

14. CURRENT TAX RECEIVABLE

Normal tax	19	13	11	-	-	-
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
Cash and cash equivalents consist of:						
Bank balances	3,763	498	535	3,758	493	497
Short-term deposits	4	4	10	4	4	3
Other cash and cash equivalents	3	5	9	3	5	5
Bank overdraft	(35)	(19)	(17)	(21)	(19)	(17)
	3,735	488	537	3,744	483	488
Current assets	3,770	507	554	3,765	502	505
Current liabilities	(35)	(19)	(17)	(21)	(19)	(17)
	3,735	488	537	3,744	483	488

Cash and cash equivalents are as per the consolidated statements of cash flows. The weighted average effective interest rate on call deposits is 7.28% (2022/21: 8.3%, 2021/20: 3.7%). Interest on cash in bank is earned at market rates.

The funds included in cash and short-term deposits are available on demand, except for the amount relating to the turret programme which is ringfenced, R331m (2022/21: R331m, 2021/20: R331m).

Denel received recapitalisation funds from the Shareholder with conditions to access. Denel could only access R1.8bn as at 31 March 2023 with the remainder (R1.5bn) ringfenced until such conditions have been met.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

16. SHARE CAPITAL

At year-end, the number of issued Class A ordinary shares were 1 000 000 000 (2021/22: 1 000 000 000, 2020/21: 1 000 000 000) and the number of issued Class B ordinary shares were 225 123 171 (2021/22: 225 081 346, 2020/21: 225 056 663). Below is the summary of shares issues.

Issued

Ordinary	1,217	1,225	1,225	1,225	1,225	1,225
Ordinary Type A	8	-	-	-	-	-
Share premium	13,979	10,396	7,327	13,979	10,396	7,327
	15,204	11,621	8,552	15,204	11,621	8,552

17. REVALUATION RESERVE

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

Reserves	53	77	141	29	29	29
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18. BORROWINGS**Held at amortised cost**

Bank loan	-	100	290	-	100	290
Inter group loans	12	-	-	-	-	-
Secured loans	161	151	-	191	151	-
Current portion of interest bearing loans and borrowings included under current liabilities	102	192	3,075	102	192	3,075
CFC	3	3	-	3	3	-
Escrow	-	-	56	-	-	27
	278	446	3,421	296	446	3,392

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

18. BORROWINGS (CONTINUED)

	Group			Company		
	2023	2022	2021	2023	2022	2021
	R'm	R'm	R'm	R'm	R'm	R'm
Weighted average effective interest rates						
Bankturing						
Local unsecured loans (fixed rate)	8	6	6	8	6	6
Current bank borrowings (floating rate)	12	8	8	12	8	8
Subtotal	20	14	14	20	14	14
	20	14	14	20	14	14
	Group			Company		
	2023	2022	2021	2023	2022	2021
	R'm	R'm	R'm	R'm	R'm	R'm
Summary of maturity of borrowings Maturing						
Within three months	1,039	981	1,011	1,039	981	1,011
Between three and twelve months	100	190	2,930	100	190	2,930
Between one and two years	-	100	290	-	100	290
Subtotal	1,139	1,271	4,231	1,139	1,271	4,231
	1,139	1,271	4,231	1,139	1,271	4,231

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 R100 mil (2020/21: R290). The programme contains crossdefault (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).

Issue date	Issue date	Maturity date	R'm
3m Jibar + 220 bps	28 Sep 2018	28 Sep 2023	100

19. CONTRACT LIABILITIES

Summary of contract liabilities

Non-contract liabilities	47	42	166	47	42	43
Current contract liabilities	1,370	1,331	1,384	1,363	1,327	1,386
	1,417	1,373	1,550	1,410	1,369	1,429

Split between non-current and current portions

Non-current liabilities	47	42	43	47	42	43
Current liabilities	1,390	1,361	1,543	1,363	1,327	1,386
	1,437	1,403	1,586	1,410	1,369	1,429

	GROUP			COMPANY		
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021
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20. PROVISIONS

Reconciliation of provisions - Group - 2023

	Opening balance	Addition	Utilised during the year	Reversed during the year	Charged to the income statement	Total
Restructuring	(2)	4	-	-	-	2
Environmental rehabilitation	250	-	-	-	28	278
Onerous contract	47	-	-	-	(4)	43
Product warranties	140	-	(78)	(15)	6	53
Restructuring	1	-	-	-	-	1
Counter trade	115	-	-	-	-	115
	551	4	(78)	(15)	30	492

Reconciliation of provisions - Group - 2022

	Opening balance	Additions	Charged to the income statement	Total
Restructuring	(2)	-	-	(2)
Environmental rehabilitation	247	10	(7)	250
Onerous contract	3	44	-	47
Product warranties	195	-	(55)	140
Restructuring	1	-	-	1
Counter trade	115	-	-	115
	559	54	(62)	551

Reconciliation of provisions - Group - 2021

	Opening balance	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	250	(3)	-	247
Onerous contract	256	-	(253)	3
Product warranties	221	(26)	-	195
Provision	1	-	-	1
Counter trade	185	(35)	(35)	115
	913	(64)	(288)	561

Reconciliation of provisions - Group - 2023

	Opening balance	Addition	Utilised during the year	Charged to the income statement	Total
Restructuring	-	4	-	-	4
Environmental rehabilitation	250	-	-	28	278
Onerous contract	47	-	(4)	-	43
Product warranties	133	-	(85)	-	48
Restructuring	1	-	-	-	1
Counter trade	34	-	-	-	34
	465	4	(89)	28	408

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

20. PROVISIONS (CONTINUED)

Reconciliation of provisions - Company - 2021

	Opening balance	Addition	Utilised during the year	Realised	Total
Environmental rehabilitation	247	3	-	-	250
Onerous contract	3	46	(2)	-	47
Product warranties	188	1	-	(56)	133
Provision	1	-	-	-	1
Counter trade	34	-	-	-	34
	473	50	(2)	(56)	465

Reconciliation of provisions - Company - 2021

		Opening balance	Charged to the income statement	Realised	Change in discount factor	Total
Environmental rehabilitation		226	(1)	-	22	247
Onerous contract		47	-	-	(44)	3
Product warranties		160	-	(8)	36	188
Provision		2	-	(1)	-	1
Counter trade		42	-	(8)	-	34
		477	(1)	(17)	14	473
Non-current liabilities	308	312	316	306	308	312
Current liabilities	184	239	245	102	157	161
	492	551	561	408	465	473

Product warranty and recall

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

Countertrade

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

Environmental provision

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

21. PREPAYMENTS RECEIVED

Current prepayments received	2,310	487	587	2,240	410	503
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

22. TRADE AND OTHER PAYABLES**Financial instruments:**

Trade payables	884	1,049	747	815	780	664
Trade payables - related parties	59	-	7	19	-	21
Sundry personnel associated	457	633	333	457	633	333
Accrued leave pay	78	87	105	65	75	92
Accrued bonus	6	7	11	6	7	11
Trade accruals	22	18	16	12	8	7
Sundry accruals	934	434	362	847	264	257
Accrued audit fees	10	10	10	3	3	3
Deposits received	8	8	8	8	8	8
Operating lease smoothing due rent paid	5	5	5	5	5	5

Non-financial instruments:

Amounts received in advance	123	123	123	123	123	123
VAT	67	96	47	67	96	37
	2,653	2,470	1,774	2,427	2,002	1,561

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

At amortised cost	2,463	2,251	1,614	2,237	1,783	1,401
Non-financial instruments	190	219	170	190	219	160
	2,653	2,470	1,784	2,427	2,002	1,561

Exposure to currency risk

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

Rand Amount

Rand	2,463	2,251	1,614	2,237	1,783	1,401
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. NON-CURRENT ASSETS HELD FOR SALE

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

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

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

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

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

Assets and liabilities

Non-current assets held for sale

Property, plant and equipment	40	145	134	-	-	-
Investment in Associates - Hensoldt	253	56	56	56	56	56
Investment property	692	-	-	693	-	-
Interdivision Loans	-	-	-	-	-	-
Prepayments made	5	-	-	-	-	-
Cash and short-term deposits	12	-	-	-	-	-
Trade and other receivables	2	-	-	-	-	-
Other assets (Net)	6	-	-	-	-	-
	1,010	201	190	749	56	56

Liabilities of disposal groups

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
Revenue from contracts with customers						
Sale of goods	1,299	1,247	2,167	1,265	1,180	2,008
Rendering of services	-	-	18	-	-	18
	1,299	1,247	2,185	1,265	1,180	2,026
Revenue other than from contracts with customers						
Rental Income	170	140	130	170	140	130
	1,469	1,387	2,315	1,435	1,320	2,156
Timing of revenue						
At a point in time	1,282	1,311	2,127	682	1,164	1,987
Over time	170	180	221	753	260	202
	1,452	1,491	2,348	1,435	1,424	2,189
Sale of goods						
Sale of goods - Domestic	881	858	1,260	857	834	1,124
Sale of goods - Foreign	10	43	22	-	-	-
Sundry internal	-	-	1	-	-	-
Interest on revenue	408	346	884	408	346	884
	1,299	1,247	2,167	1,265	1,180	2,008

Other revenue**Future revenue****Future revenue from long-term customer contracts**

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

Order backlog duration:

Order backlog duration

1 Year	1,571	698	2,048	-	698	2,048
1 - 2 Years	1,163	469	437	-	469	437
2 - 3 Years	923	906	659	-	906	659
3 - 4 Years	551	689	883	-	689	883
	-	-	-	-	-	-
	4,208	2,762	4,027	-	2,762	4,027

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

24. REVENUE (CONTINUED)

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

Segment reporting

Segment information is presented in respect of the group's operating segments. These operating segments are based on the group's management and reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated items are shown as reconciling items between the segments and the consolidated information.

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

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

Business segments

The group comprises the following main operating segments:

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

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 ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

	Aerospace Systems	Aeronautics	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R
Group - 2023							
Segment revenue	402	407	323	124	275	(63)	1,468
Revenue from external customers	351	405	318	124	264	-	1,462
	51	2	5	-	11	(63)	6
Intergroup revenue							
Contribution	24 %	28 %	22 %	8 %	18 %	- %	100 %
Segment operating profit/(loss)	(48)	9	(370)	(164)	869	(2)	294
Net finance income/(costs)	(54)	13	(328)	(27)	(57)	3	(450)
Share of profit in associated companies	-	-	-	-	-	74	74
Income tax expense	-	(1)	(9)	-	-	(2)	(12)
Net (loss)/profit for the year	(102)	21	(707)	(191)	812	73	(94)
Segment assets	928	866	2,638	434	11,069	(5,662)	10,273
Deferred tax assets	-	1	272	-	78	-	351
Total assets	928	867	2,910	434	11,147	(5,662)	10,624
Segment liabilities	1,683	-	6,076	596	2,097	(2,866)	7,586
Deferred tax liabilities	-	-	-	-	4	-	4
Total liabilities	1,683	-	6,076	596	2,101	(2,866)	7,590
Capital expenditure	16	-	-	-	2	-	18
Impairment losses raised/(reversed)	14	10	29	2	-	-	55
Depreciation/amortisation i.r.o. segment assets	17	8	12	6	1	-	44
Significant non-cash items		(26)	152				126
Fair value adjustment	-	-	-	-	44	-	44

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

24. REVENUE (CONTINUED)

	Aerospace Systems	Aeronautics	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 %	29 %	16 %	15 %	- %	100 %
	Aerospace Systems	Aeronautics	Land Solutions	Munitions	Non-core	Consolidation entries	Total
	R	R	R	R	R	R	R
Group - 2022							
Segment operating profit/(loss)	(228)	(58)	(295)	(93)	(87)	16	(745)
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)	(12)	(990)
Segment assets	888	781	2,124	472	2,067	196	6,528
Deferred tax assets	-	-	246	-	-	-	246
Total assets	888	781	2,370	472	2,067	196	6,774
Segment liabilities	1,551	350	4,798	442	937	(472)	7,606
Deferred tax liabilities	-	-	-	-	2	-	2
Total liabilities	1,551	350	4,798	442	939	(472)	7,608
Depreciation/amortisation i.r.o. segment assets	17	8	12	7	38	-	82
Significant non-cash items							
Fair value adjustment	-	24	130	-	35	-	189

25. COST OF SALES AND OTHER OPERATING EXPENSES

Heading

Cost of sales	4	5	6	7	8	9
Previously reported	3	4	5	1	1	1
Adjustments	1	1	1	6	7	8

Cost of sales and other operating expenses are arrived at after taking the following items into account:

8	10	12	14	16	18
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
26. COST OF SALES						
Sale of goods	1,286	1,400	2,084	1,282	1,350	1,967
Manufactured goods:						
Raw materials consumed	-	-	(160)	-	-	-
Employee costs	-	-	1	-	-	-
Manufacturing expenses	-	-	(75)	-	-	-
	1,286	1,400	1,850	1,282	1,350	1,967

27. OTHER OPERATING INCOME

Administration and management fees received	2	-	3	1	-	14
Commissions received	1	-	-	-	-	-
Bad debts recovered	-	1	2	-	1	2
Fair value adjustment on investment properties	1	4	21	-	-	-
Net gains/(losses) on financial instruments	-	-	12	-	-	-
Grants received	7	1	9	7	1	57
Other income	1,152	123	1,419	1,152	123	482
	1,163	129	1,466	1,160	125	555

28. OTHER OPERATING GAINS (LOSSES)**Gains (losses) on disposals, scrappings and settlements**

Property, plant and equipment	2	-	-	14	-	(7)
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Foreign exchange gains (losses)

Net foreign exchange loss	(42)	(38)	(511)	(42)	(38)	(403)
Total other operating gains (losses)	(42)	(38)	(497)	(42)	(38)	(410)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
29. OPERATING PROFIT (LOSS)						
Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:						
Auditor's remuneration - external	10	12	12	10	12	7
Audit fees						
Remuneration, other than to employees						
Administrative and managerial services	2	1	2	2	-	-
Consulting and professional services	46	29	39	46	28	36
	48	30	41	48	28	36
Employee costs						
Salaries, wages, bonuses and other benefits	443	477	639	359	329	419
Leases						
Variable lease payments	10	3	9	10	3	4
Short-term leases	-	1	2	-	-	-
Leases of low value assets	-	1	1	-	1	1
	10	5	12	10	4	5
Less: Lease charges included in cost of merchandise sold and inventories	-	-	(5)	-	-	-
Total lease expenses	10	5	7	10	4	5
Depreciation and amortisation						
Depreciation of property, plant and equipment	16	20	49	10	13	10
Depreciation of right-of-use assets	2	-	-	2	-	-
Amortisation of intangible assets	4	(1)	6	2	-	5
Total depreciation and amortisation	22	19	55	14	13	15
Impairment losses						
Property, plant and equipment	-	(5)	41	-	-	41
Investments in subsidiaries, joint arrangements and associates	-	-	126	-	8	53
Impairment non-interest bearing receivables	(4)	-	(1)	(4)	-	(1)
	(4)	(5)	166	(4)	8	93
Movement in credit loss allowances						
Trade and other receivables	-	-	5	-	-	-
Contract assets	-	-	(4)	-	-	2
	-	-	1	-	-	2

30. INVESTMENT INCOME

Interest income

Investments in financial assets:

Bank and other cash	-	-	1	-	-	-
Other financial assets	23	12	28	23	10	28
Total interest income	23	12	29	23	10	28

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

30. INVESTMENT INCOME (CONTINUED)

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

31. FINANCE COSTS

Lease liabilities	-	-	7	-	-	-
Current borrowings	2	-	-	-	-	-
Other	-	(6)	4	-	-	-
Unwinding of discount on provisions and other liabilities	32	24	46	32	24	46
Finance cost on significant finance component	223	200	200	223	200	200
Finance costs on financial liabilities	193	159	244	194	159	237
Total finance costs	450	377	501	449	383	483

32. TAXATION

Major components of the tax expense (income)

Current

Local income tax - current period	1	-	(6)	1	-	-
Tax expense	-	(63)	-	-	(55)	-
Current tax	1	-	1	1	-	1
	2	(63)	(5)	2	(55)	1

Deferred

Originating and reversing temporary differences	10	(34)	(43)	2	-	-
	12	(97)	(48)	4	(55)	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 %	- %
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
33. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES						
Depreciation						
Property, plant and equipment	16	20	49	10	13	10
Right-of-use assets	2	-	-	2	-	-
	18	20	49	12	13	10
Amortisation						
Intangible assets	4	(1)	6	2	-	5
Impairment losses						
Property, plant and equipment	-	(5)	41	-	-	41
Investments in subsidiaries, joint arrangements and associates	-	-	126	-	8	53
Impairment non-interest bearing receivables	(4)	-	(1)	(4)	-	(1)
	(4)	(5)	166	(4)	8	93
Total depreciation, amortisation and impairment						
Depreciation	18	20	49	12	13	10
Amortisation	4	(1)	6	2	-	5
Impairment losses	(4)	(5)	166	(4)	8	93
	18	14	221	10	21	108

34. CASH GENERATED FROM OPERATIONS

Loss before taxation	(56)	(1,025)	(475)	(88)	(935)	(1,028)
Adjustments for non-cash items:						
Depreciation, amortisation, impairments and reversals of impairments	149	58	94	59	52	55
Gains on exchange differences	-	-	(469)	-	-	(448)
Fair value adjustments	(44)	(35)	(3)	(44)	(35)	(3)
Impairment raised/reversed	51	12	70	79	14	79
Disposal of PPE	(2)	(2)	24	(2)	-	12
Loss (Gains) on fair value adjustments	-	-	(7)	-	-	-
Net impairments and movements in credit loss allowances	29	-	-	-	-	-
Share of profit or loss of equity accounted investments	(74)	(86)	82	-	-	-
Profit on derecognition of investment	-	-	(931)	-	-	-
Foreign gains and losses	(60)	(9)	511	(59)	(38)	403
Adjust for items which are presented separately:						
Interest income	(23)	(17)	(25)	(23)	11	(25)
Finance costs	450	382	500	449	383	480
Changes in working capital:						
(Increase) decrease in inventories	(517)	288	457	(517)	244	315
(Increase) decrease in trade and other receivables	337	(272)	100	144	(147)	51
(Increase) decrease in prepayments	(82)	121	111	(86)	113	72
(Increase) decrease in contract assets	(353)	349	(229)	(353)	349	(276)
Increase (decrease) in trade and other payables	185	649	445	469	450	346
Increase (decrease) in contract liabilities	343	(59)	215	351	(60)	99
Loan receivable	-	(2)	-	(168)	-	-
Movement in provisions	23	(10)	(88)	199	(8)	12
	356	342	382	410	371	144

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
Balance at beginning of the year	-	11	-	-	-	-
Current tax recognised in profit or loss	(2)	63	5	(2)	55	(1)
Balance at end of the year	-	(13)	(11)	-	-	-
	(2)	61	(6)	(2)	55	(1)

35. TAX (PAID) REFUNDED

36. CONTINGENT LIABILITIES

Guarantees

The following guarantees were issued by the group:

Advance payment guarantees	2,438	3,064	3,173	2,438	3,064	3,173
	-	-	-	-	-	-
Performance guarantees	614	749	809	614	749	809
Other guarantees	150	173	198	150	173	198
Total of guarantees issued	3,202	3,986	4,180	3,202	3,986	4,180

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 2022/23 R348m (2021/22: R506m, 2020/2021: R506m). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims other than that which have already been provided. Details of some of the key issues are provided below:

The group has received a liquidation application from one of its suppliers as a result of non-payment for work-in progress and loss of profits. The parties are in discussions in order to resolve this matter.

Site restoration

Provision for site restoration has been calculated and raised, based on certain key assumptions. A contingency of 2022/23: 15% (2021/22: 15%, 2020/21: 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 2022/23: R41.6m (2021/22: R37.4m, 2020/21: R31.9m) for both, group and company.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

36. CONTINGENT LIABILITIES (CONTINUED)

Countertrade

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

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

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

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations.

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

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

	2023			2022			2021		
	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
Countertrade obligation									
Total countertrade obligation	7,151	9,332	16,483	6,457	7,826	14,283	9,292	29	9,321
Obligation discharged	(6,332)	(2,459)	(8,791)	(5,310)	(2,062)	(7,372)	(7,582)	(29)	(7,611)
Obligation discharged	819	6,873	7,692	1,147	5,764	6,911	1,710	-	1,710
To be settled by third party	-	(4,437)	(4,437)	-	(3,721)	(3,721)	-	-	-
Net obligation of the group	819	2,436	3,255	1,147	2,043	3,190	1,710	-	1,710
Penalties									
Maximum penalty for noncompliance	13	342	355	11	287	298	14	-	14
Third party obligation	-	(222)	(222)	-	(186)	(186)	-	-	-
Net group exposure	13	120	133	11	101	112	14	-	14
Guarantees issued									
Group issued	56	114	170	46	95	141	66	117	183
Third party guarantees	27	-	27	23	-	23	28	-	28
	83	114	197	69	95	164	94	117	211
Provision to settle obligation	-	-	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. RELATED PARTIES

Relationships
Holding company
Subsidiaries
Joint ventures
Associates
Joint venture of key management
Associate of close family member of key management
Post employment benefit plan for employees of entity and/or other related parties
Members of key management

Department of Public Enterprise
Refer to note 6
Refer to note
Refer to note 7

Related party balances

2023	Company related parties balances							Group related parties balances								
	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Advance payments received	20	35	-	-	-	2,071	-	-	20	17	-	-	-	-	2,071	-
Allowance for doubtful debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for doubtful debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amounts written off during the period	-	-	-	-	-	2	-	-	-	-	-	-	-	2	-	-
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	1,886	-	-	-	-	-	-	-	1,886	-	-
Guarantee issued to third parties by related parties	-	-	-	-	-	3,430	-	-	-	-	-	-	-	3,430	-	-
Guarantees issued to third parties on behalf of related parties	-	4,000	-	47	-	-	-	-	-	4,000	-	47	-	1	1	-
Interest paid	82	-	-	-	-	-	-	-	82	-	-	-	-	-	-	-
Interest received	95	-	-	-	-	-	1	1	116	-	-	-	-	-	-	-
Lease payments	-	-	-	-	-	-	-	-	6	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. RELATED PARTIES (CONTINUED)

2023	Company related parties balances							Group related parties balances								
	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Lease receivables	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
Outstanding balances payable	1,140	44	-	7	4	3	13	-	1,128	-	-	7	4	3	39	-
Outstanding balances receivable	2,291	4	-	36	32	67	19	-	2,292	3	-	36	-	67	19	-
Penalties paid	1	-	-	-	-	-	1	-	-	-	-	-	-	-	1	-
Penalties received	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for penalties paid	12	-	-	-	-	6	-	-	-	-	-	-	-	6	-	-
Purchase of goods	49	-	-	3	-	-	-	-	55	-	-	3	-	-	-	-
Purchase of properties and other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of goods	4	2	-	29	-	41	119	-	4	-	-	29	-	41	119	-
Sales of properties and other assets	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services received	4	1	-	-	-	1	9	8	4	-	-	-	-	-	-	-
Services rendered	-	-	-	-	-	-	54	-	1	-	-	-	-	1	9	8
Settlement of liabilities on behalf of the entity	197	-	-	-	-	-	-	-	-	-	-	-	-	-	54	-
Transfers under finance agreements	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	3,913	4,086	-	122	36	7,507	216	9	3,709	4,020	-	122	4	7,508	243	9

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

37. RELATED PARTIES (CONTINUED)

2022	Denel SOC Ltd and subsidiaries R'm							Companies related parties								
	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm	Denel SOC Ltd & Subsidiaries R'm	Subsidiaries R'm	Joint ventures R'm	Associated companies R'm	Post employment funds R'm	National government R'm	Major national public entities R'm	Other related parties R'm
Advance payments made	24	17	-	-	-	-	-	-	24	17	-	-	-	-	-	-
Advance payments received	-	-	-	-	-	2,073	-	-	-	-	-	-	-	2,073	-	-
Dividends received	7	-	-	3	-	-	-	-	7	-	-	3	-	-	-	-
Guarantees issued to related parties	-	-	-	-	-	2,025	-	-	-	-	-	-	-	2,025	-	-
Allowance for doubtful debts	-	-	-	-	-	3	-	-	-	-	-	-	-	3	-	-
Guarantees issued to third parties by related parties	-	-	-	-	-	-	-	-	-	-	-	4,000	-	67	1	4
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	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of goods	3	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-
Sale of goods	9	-	-	12	-	13	119	-	9	-	-	12	-	13	119	-
Services received	21	-	-	-	-	-	8	-	21	-	-	-	-	-	8	-
	1,769	4,028	-	113	12	3,487	153	1	1,764	4,028	-	111	12	4,202	153	1

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. DIRECTORS' EMOLUMENTS

EXECUTIVE

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

2023	Salaries	Pension Fund contribution	Medical Aid contribu- tion	Other benefits	Company Contribution	Total 2022/23	Total 2021/22	Total 2020/21	Total 2019/20
Directors' emoluments									
Executive director									
Mr D Du Toit	-	-	-	-	-	-	-	1,271	5,000
Ms C le Grange	-	-	-	-	-	-	-	3,278	1,970
Mr W Hlakoane1	2,595	90	156	143	159	3,143	2,968	2,899	2,331
Mr M Kgobe2	1,420	76	78	133	135	1,842	-	2,607	2,607
Ms T Sabela3	1,484	53	130	178	93	1,938	1,718	-	-
Sub-Total	5,499	219	364	454	387	6,923	4,686	10,055	11,908
Prescribed officers									
Ms Ngema	619	19	30	282	33	983	2,277	2,526	2,175
Mr R Saloojeeen4	1,430	-	-	16	-	1,446	-	-	-
Mr MX Makhathini5	-	-	-	-	-	-	3,498	2,897	-
Ms N Paulse6	648	38	95	96	67	944	-	-	-
Mr S Ntshilele7	774	31	99	102	56	1,062	-	-	-
Ms Dhlamini	967	34	71	14	60	1,145	944	-	-
Sub-total	4,438	122	295	510	216	5,580	6,719	5,423	2,175

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

38. DIRECTORS' EMOLUMENTS (CONTINUED)

1. Appointed as Acting GCEO until 30 August 2022, thereafter remained as GCOO
2. Appointed as Acting GCEO from 1 September 2022
3. Appointed as Interim GCFO from March 2021
4. Appointed as Chief Restructuring Officer October 2022 (Seconded from June 2022)
5. Resigned on March 2022
6. Appointed as Acting Group HR from xxx
7. Appointed as GCEO for DVS from xxx until 30 September 2022
8. Appointed as GCEO for DVS from 1 October 2022
9. Other includes various allowances

NON-EXECUTIVE DIRECTORS

Mrs GT Serobe
 Mr TH Magazi
 Lt Gen. (rtd) TT Matanzima
 Mr MM Mnisi
 Ms AMSS Mokgabudi
 Ms MMT Ramano

	R'000 2023	R'000 2022	R'000 2021
	962	1,042	240
	422	276	326
	256	231	105
	309	218	161
	442	213	-
	156	21	-
Sub-total	2,547	2,001	832

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

39. PRIOR PERIOD ERRORS

IAS 8 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. When an IFRS Standard or IFRS Interpretation specifically applies to a transaction, other event or condition, an entity must apply that Standard.

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

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

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

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in:

- the period of the change, if the change affects that period only; or
- the period of the change and future periods, if the change affects both.

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

Restatement of lease liability and right of use assets

The corresponding amounts for the right of use asset and the lease liability have been restatement in the current year. This was after management have discovered that there was an incorrect application of IFRS 16 on the previous years which resulted in errors on the corresponding amounts. This resulted in changes on the corresponding amount and the opening balances of the following accounts in both the statement of comprehensive income and the statement of financial position:

Restatement of receivables and contract assets

The corresponding amounts for the Trade and other receivables and contract assets have been restatement in the current year. The accounts in the previous years were not adequately assessed for impairment as required by IFRS 9, also was after management have discovered that there was an incorrect application of IFRS 9 on the previous years which resulted in errors on the corresponding amounts. This resulted in changes on the corresponding amount and the opening balances of the following accounts in both the statement of comprehensive income and the statement of financial position:

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

39. PRIOR PERIOD ERRORS (CONTINUED)

Restatement of revenue cost of sales, contract assets and contract liabilities

The corresponding amounts for the revenue, contract assets and contract liabilities have been restatement in the current year. The accounts in the previous years were not adequately assessed for impairment as required by IFRS 15, incorrect use of exchange rates, also was after management have discovered that there was an incorrect application of IFRS 15 on the previous years which resulted in errors on the corresponding amounts. This resulted in changes on the corresponding amount and the opening balances of the following accounts in both the statement of comprehensive income and the statement of financial position:

The correction of the error(s) results in adjustments as follows:

2022

Assets

	Reported	Adjusted	Restated	Reported	Adjusted	Restated
Non-Current Assets						
Property, plant and equipment	649	(24)	625	519	(24)	495
Right-of-use assets	23	129	152	23	129	152
Deferred tax	246	2	248	-	2	2
Investments in associates	1,109	-	1,109	371	-	371
Intangible assets	62	(3)	59	32	(3)	29
Investment property	898	-	898	898	-	898
Investment in subsidiaries and divisions	-	-	-	8	-	8
	2,987	104	3,091	1,851	104	1,955
Current Assets						
Trade and other receivables	952	(64)	888	767	(64)	703
Contract assets	558	(322)	236	547	(322)	225
Advance payments made	152	(21)	131	167	(21)	146
Post retirement medical aid	1	-	1	1	-	1
Cash and short-term deposits	507	3	510	502	3	505
Income tax receivables	13	-	13	-	-	29
Inventories	1,434	(81)	1,353	1,366	(81)	1,285
	3,617	(485)	3,132	3,350	(485)	2,894
Non-current assets held for sale and assets of disposal groups	201	-	201	56	-	56
Total Assets	6,805	(381)	6,424	5,257	(381)	4,905

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
39. PRIOR PERIOD ERRORS (CONTINUED)						
Equity and Liabilities						
Equity						
Share capital	11,621	-	11,621	11,621	-	11,621
Reserves	77	-	77	29	-	29
Accumulated loss	(12,535)	(29)	(12,564)	(13,378)	(29)	(13,407)
	(837)	(29)	(866)	(1,728)	(29)	(1,757)
Liabilities						
Non-Current Liabilities						
Provisions	390	(25)	365	308	(25)	283
DT liability	2	-	2	2	-	2
	2,619	(25)	2,594	2,537	(25)	2,512
Current Liabilities						
Trade and other payables	2,470	(6)	2,464	2,011	(6)	2,005
Contract liabilities	1,361	(315)	1,046	1,327	(315)	1,012
Provisions	161	(57)	104	157	(57)	100
Loans and borrowings	345	-	345	344	-	344
Lease liability	180	50	230	180	50	230
Advance payments received	487	-	487	410	-	410
Bank overdraft	19	-	19	19	-	19
	5,023	(328)	4,695	4,448	(328)	4,120
Liabilities of disposal groups	23 48	-	-	-	-	-
Total Liabilities	7,690	(353)	7,289	6,985	(353)	6,632
Total Equity and Liabilities	6,853	(382)	6,423	5,257	(382)	4,875

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021
39. PRIOR PERIOD ERRORS (CONTINUED)						
2022						
Statement of comprehensive income						
Revenue	1,387	77	1,464	1,320	77	1,397
Cost of sales	(1,400)	(47)	(1,447)	(1,350)	(47)	(1,397)
Other income	129	1	130	137	1	138
Operating expense	(819)	(57)	(876)	(633)	(57)	(690)
Finance costs	(377)	122	(255)	(381)	122	(259)
Share of profit/(loss) in associate companies	86	-	86	-	-	-
Taxation	34	(19)	15	-	(19)	(19)
Investment income	12	-	12	10	-	10
Other operating gains	(38)	-	(38)	(38)	-	(38)
	(986)	77	(909)	(935)	77	(858)
2021						
Assets						
Non-Current Assets						
Property, plant and equipment	714	(24)	690	584	(24)	560
Right-of-use assets	295	(114)	181	295	(114)	181
Deferred tax	197	-	197	-	-	-
Investment properties	863	-	863	863	-	863
Intangible assets	66	(2)	64	36	(2)	34
Investment in associates	1,098	-	1,098	371	-	371
Investment in subsidiaries and divisions	-	-	-	8	-	8
	3,233	(140)	3,093	2,157	(140)	2,017
Current Assets						
Inventories	1,797	-	1,709	1,597	-	1,597
Loans receivable	-	111	111	1,216	(1,216)	29
Trade and other receivables	159	602	761	671	(52)	619
Contract assets	533	42	575	522	42	564
	2,489	755	3,156	4,006	(1,226)	2,809
Total Assets	5,722	615	6,249	6,163	(1,366)	4,826

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

39. PRIOR PERIOD ERRORS (CONTINUED)

Equity and Liabilities

Liabilities

Non-Current Liabilities

Loans and borrowings	290	-	290	290	-	290
	884	(35)	849	802	(35)	767

Current Liabilities

Trade and other payables	1,509	465	1,974	1,636	13	1,649
Loans and borrowings	3,075	56	3,131	4,320	(1,216)	3,104
Provisions	280	(170)	110	105	(1)	104
Lease liability	-	13	13	-	13	13
Bank overdraft	35	19	17	21	19	17
	4,899	383	5,245	6,082	(1,172)	4,887
Liabilities of disposal groups	23 48	-	-	-	-	-
Total Liabilities	5,831	348	6,094	6,884	(1,207)	5,654

2021

Statement of comprehensive income

Revenue	2,315	74	2,389	2,156	74	2,230
Cost of sales	(1,849)	(20)	(1,869)	(1,967)	(20)	(1,987)
Other income	1,468	(933)	535	555	-	555
Operating expense	(1,358)	21	(1,337)	(907)	21	(886)
Finance costs	(502)	(43)	(545)	(484)	(43)	(527)
Share of profit/(loss) in associated companies	(82)	-	(82)	-	-	-
Taxation	48	-	48	(1)	-	(1)
Other operating gains	(497)	-	(497)	(410)	-	(410)
Investment income	29	-	29	28	-	28
	(428)	(901)	(1,329)	(1,030)	32	(998)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

Overview

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

These risks include:

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

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

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

The roles and responsibilities of the Audit & Risk committee include:

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

40.1 CREDIT RISK

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Receivables from customers

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

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

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

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

Financial instruments managed by the group's treasury function

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit exposure and concentration of credit risk

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

Group	Domestic	2023 Foreign	Total	Domestic	2022 Foreign	Total
	R	R	R	R	R	R
Trade receivables ¹	276	95	371	365	331	696
Government and related units	211	4	215	103	14	117
Non-government units	65	91	156	262	317	579
Sundry receivables¹	187	1	188	195	7	202
Government and related units	168	1	169	186	-	186
Non-government units	19	-	19	9	7	16
Interest receivables¹	2	-	2	2	-	2
Government and related units	2	-	2	2	-	2
Non-government units	-	-	-	-	-	-
Loans and receivables⁸⁾	-	168	168	-	-	-
Government and related units	-	168	168	-	-	-
Non-government units	-	-	-	-	-	-
Cash and short-term deposits²	3,582	186	3,768	475	32	507
Government and related units	50	6	56	42	-	42
Non-government units	3,532	180	3,712	433	32	465
	4,047	450	4,497	1,037	370	1,407

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. 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	Domestic	2023 Foreign	Total	Domestic	2022 Foreign	Total
	R	R	R	R	R	R
Trade receivables¹	276	95	371	313	285	598
Government and related units	211	4	215	265	12	277
Non-government units	65	91	156	48	273	321
Sundry receivables¹	114	-	114	153	17	170
Government and related units	95	-	95	130	-	130
Non-government units	19	-	19	23	17	40
Interest receivables¹	2	-	2	2	-	2
Government and related units	2	-	2	2	-	2
Non-government units	-	-	-	-	-	-
Loans and receivables⁸⁾	168	-	168	-	-	-
Government and related units	168	-	168	-	-	-
Non-government units	-	-	-	-	-	-
Cash and short-term deposits²	3,577	186	3,763	469	32	501
Government and related units	45	6	51	31	-	31
Non-government units	3,532	180	3,712	438	32	470
	4,137	281	4,418	937	334	1,271

1. Refer note 9.

1. Refer note 15.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Ageing

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

	2023				2022			
	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
Trade receivables¹	363	124	(32)	455	909	3	(77)	835
Not past due	69	3	(3)	69	20	3	-	23
Group								
Less than 30 days	178	-	-	178	198	-	-	198
30 to 60 days	4	-	-	4	6	-	-	6
61 to 90 days	7	-	-	7	19	-	-	19
More than 90 days	105	121	(29)	198	666	-	(77)	589
Sundry receivables¹	144	-	-	144	504	978	(978)	504
Not past due, not impaired	50	-	-	50	501	978	(978)	501
Past due								
61 to 90 days	91	-	-	91	(2)	-	-	(2)
More than 90 days	3	-	-	3	5	-	-	5
Interest receivables¹	1	-	-	1	-	-	-	-
Not past due, not impaired	1	-	-	1	-	-	-	-
Past due								
Cash and short-term deposits²	3,770	-	-	3,770	479	-	-	479
Not past due, not impaired	3,770	-	-	3,770	479	-	-	479
More than 90 days	-	-	-	-	3	-	-	3
	4,278	124	(32)	4,371	1,895	981	(1,055)	1,821

1. Refer note 9.

1. Refer note 15.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Ageing

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

	2023				2022			
	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
Trade receivables¹	277	124	(32)	369	674	3	(80)	597
Not past due Company	69	3	(3)	69	20	3	(3)	20
Less than 30 days	92	-	-	92	150	-	-	150
30 to 60 days	4	-	-	4	3	-	-	3
61 to 90 days	7	-	-	7	10	-	-	10
More than 90 days	105	121	(29)	197	491	-	(77)	414
Sundry receivables¹	115	-	-	115	167	-	-	167
Not past due, not impaired	50	-	-	50	167	-	-	167
Past due 61 to 90 days	62	-	-	62	-	-	-	-
More than 90 days	3	-	-	3	-	-	-	-
Interest receivables¹	1	-	-	1	1	-	-	1
Not past due, not impaired	1	-	-	1	1	-	-	1
Past due								
Cash and short-term deposits²	3,765	-	-	3,765	501	-	-	501
Not past due, not impaired	3,765	-	-	3,765	501	-	-	501
	4,158	124	(32)	4,250	1,343	3	(80)	1,266

1. Refer note 13.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

40.2 LIQUIDITY RISK

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

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

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

GROUP	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
2023	R	R	R	R	R	R
Interest bearing loans and borrowings	278	293	-	293	-	-
Trade and other payables	2,653	2,653	136	2,154	57	306
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,931	2,946	136	2,447	57	306
2022						
Interest bearing loans and borrowings	445	445	-	-	445	4
Trade and other payables	2,470	2,470	408	2,040	22	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	2,792	1,145	864	783	-
	2,915	5,707	1,553	2,904	1,250	4

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY	Contractual undiscounted cash flows					
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
2023	R	R	R	R	R	R
Interest bearing loans and borrowings	296	296	-	296	-	-
Trade and other payables	2,427	2,427	136	1,928	57	306
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
	2,723	2,723	136	2,224	57	306
2022						
Interest bearing loans and borrowings	472	472	-	-	472	-
Trade and other payables	2,013	2,013	199	1,639	175	-
Derivative financial liabilities	-	-	-	-	-	-
Guarantees	-	2,792	1,145	864	783	-
	2,485	5,277	1,344	2,503	1,430	-

Currency risk

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 26, 27 and 28.

40.3 MARKET RISK

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

Entities

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

Treasury

Treasury is responsible for reporting to the Audit & Risk committee on market risk elements. The report submitted includes important positional and hedge information on currency, interest rate and commodities. In addition, key market risk information is reported to the GFD and executive committee on a quarterly basis.

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

Interest rate risk

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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	14	69	46	11	69	46
Cash managed on behalf of associated companies	-	-	-	-	-	-
Loans and borrowings	1,357	281	267	1,160	281	267
Loans and other receivables	314	473	692	160	473	692

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	3,678	323	323	3,678	323	323
Loans and borrowings	100	4	10	100	4	10
Loans and other receivables	1,040	-	-	1,040	-	-

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

40. 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 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 quarterly 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 26, 27 and 28.

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2023	2022	2021	2023	2022	2021
	USD	USD	USD	EUR	EUR	EUR
	m	m	m	m	m	m
GROUP						
Assets	12	50	9	2	-	4
Trade receivables	12	50	9	2	-	4
Controlled foreign currency accounts (CFC)	-	-	-	-	-	-
Liabilities	-	26	(2)	(4)	(1)	(1)
Trade payables	-	26	(2)	(4)	(1)	-
Gross balance sheet exposure	12	76	7	(3)	(1)	-
Net exposure	12	76	7	(3)	(1)	(1)
	2023	2022	2021	2023	2022	2021
	USD	USD	USD	EUR	EUR	EUR
	m	m	m	m	m	m
COMPANY						
Assets	12	50	5	2	10	-
Trade receivables	12	50	5	2	10	-
Controlled foreign currency accounts (CFC)	-	-	-	-	-	-
Liabilities	-	26	(2)	(4)	(1)	(1)
Trade payables	-	26	(2)	(4)	(1)	(1)
Gross balance sheet exposure	12	76	3	(3)	(1)	(1)

Strengthening of the Rand

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

MATURITY TABLE									
Group	2023			2022			2021		
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total	Three to five years
Foreign currency derivatives									
Revenue contracts									
Euro (EUR)	-	-	-	-	2,132,266	-	-	2,132,266	-
Sterling (GBP)	-	-	-	-	21,521	-	-	21,521	-
Switzerland (CHF)	-	-	-	-	151,290	-	-	151,290	-
US Dollar (USD)	-	-	-	-	56,535,296	-	-	56,535,296	-
Purchase contracts									
Euro (EUR)	-	-	-	-	4,507,499	-	-	4,507,499	-
Sterling (GBP)	-	-	-	-	284,089	-	-	284,089	-
Switzerland (CHF)	-	-	-	-	41,778	-	-	41,778	-
US Dollar (USD)	-	-	-	-	332,967	-	-	332,967	-
Company									
Foreign currency derivatives									
Revenue contracts									
Euro (EUR)	-	-	-	-	921,907	-	-	921,907	-
Sterling (GBP)	-	-	-	-	151,290	-	-	151,290	-
Switzerland (CHF)	-	-	-	-	29,549,972	-	-	29,549,972	-
Purchase contracts									
Euro (EUR)	-	-	-	-	3,722,203	-	-	3,722,203	-
Sterling (GBP)	-	-	-	-	284,089	-	-	284,089	-
Switzerland (CHF)	-	-	-	-	41,778	-	-	41,778	-
Firm commitments relating to foreign exchange options									
Export transactions									

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**Firm commitments relating to foreign exchange contracts**

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

Import transactions**Firm commitments relating to foreign exchange contracts**

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

Commodity risk

1. 2016/17: Export contracts: €381 014 matures within one year.
2. 2016/17: Exports contracts: £27 800 matures within one year.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

40.4 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	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount
	R	R	R	R
	'000	'000	'000	'000
2023				
Cash and cash equivalents	3,769	-	-	3,769
Financial assets				
Loans and receivables	-	-	-	-
Financial assets at fair value through profit or loss	802	-	-	802
Trade and other receivables	558	-	-	558
	5,129	-	-	5,129
Financial liabilities				
Associated companies: Loans	-	(278)	-	(278)
Other financial liabilities	-	(6,529)	-	(6,529)
	-	(6,807)	-	(6,807)
Net financial assets/(liabilities)	5,129	(6,807)	-	(1,678)
2022				
Cash and cash equivalents	545	-	-	545
Financial assets				
Loans and receivables	-	-	-	-
Financial assets at fair value through profit or loss	367	-	-	367
Trade and other receivables	601	-	-	601
	1,513	-	-	1,513
Financial liabilities				
Associated companies: Loans	-	(445)	-	(445)
Interest bearing borrowings	-	-	-	-
Other financial liabilities	-	(6,144)	-	(6,144)
	-	(6,589)	-	(6,589)
Net financial assets/(liabilities)	1,513	(6,589)	-	(5,076)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY	Loans and receivables	Liabilities at amortised cost	At fair value through profit and loss	Carrying amount
2023	R	R	R	R
Cash and cash equivalents	3,764	-	-	3,764
Financial assets	168	-	-	168
Loans and receivables				
Financial assets at fair value through profit or loss	810	-	-	810
Trade and other receivables	559	-	-	559
	5,301	-	-	5,301
Financial liabilities				
Associated companies: Loans	-	296	-	296
Other financial liabilities	-	(6,260)	-	(6,260)
	-	(5,964)	-	(5,964)
Net financial assets/(liabilities)	5,301	(5,964)	-	(663)
2022				
Cash and cash equivalents	505	-	-	505
Financial assets	-	-	-	-
Loans and receivables				
Other financial liabilities	371	-	-	371
Trade and other receivables	703	-	-	703
	1,579	-	-	1,579
Financial liabilities				
Associated companies: Loans	-	(444)	-	(444)
Other financial liabilities	-	(5,573)	-	(5,573)
	-	(6,017)	-	(6,017)
Net financial assets/(liabilities)	1,579	(6,017)	-	(4,438)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

40. 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

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

GROUP	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
2023	R	R	R	R	R	R
Investment properties	246	246	-	-	246	246
Other financial assets	802	802	-	802	-	802
Assets measured at fair value						
Cash and cash equivalents	3,769	3,769	-	3,769	-	3,769
Assets not measured at fair value						
Trade and other receivables	559	559	-	559	-	559
	5,376	5,376	-	5,130	246	5,376
Other financial liabilities	(3,918)	(3,918)	-	(3,918)	-	(3,918)
Liabilities measured at fair value						
Loans and borrowings	(278)	(278)	-	(278)	-	(278)
Trade and other payables	(2,611)	(2,611)	-	(2,611)	-	(2,611)
	(6,807)	(6,807)	-	(6,807)	-	(6,807)
Liabilities not measured at fair value						
	-	-	-	-	-	-
Net Value	(1,431)	(1,431)		(1,677)	246	1,431
2022						
Investment properties	898	898	-	-	898	898
Other financial assets	367	367	-	367	-	367
Assets measured at fair value						
Cash and cash equivalents	545	545	-	545	-	545
Assets not measured at fair value						
Trade and other receivables	601	601	-	601	-	601
	2,411	2,411	-	1,513	-	2,411
Other financial liabilities	(3,679)	(3,679)	-	(3,679)	-	(3,679)
Liabilities measured at fair value						
Loans and borrowings	(445)	(445)	-	(445)	-	(445)
Trade and other payables	(2,464)	(2,464)	-	(2,464)	-	(2,464)
	(6,588)	(6,588)	-	(6,588)	-	(6,588)
Liabilities not measured at fair value						
	(4,177)	(4,177)	-	(5,075)	898	(4,177)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

41. GOING CONCERN

The annual financial statements of Denel (SOC) Ltd for the year ended 31 March 2023 were prepared on a going concern basis. In terms of the International Accounting Standard 1, Presentation of Financial Statements (IAS 1) the directors are required to assess the entity's ability to continue as a going concern for the foreseeable future. Such assessment must consider all available information, which should be at least, but not limited, to twelve months from the balance sheet date. The Board assessed the Denel group's ability to continue as a going concern in the foreseeable future by looking at all areas that are risky in the business and that could be a threat to the business's ability to continue as a going concern in the foreseeable future. The financial performance of the group is a function of both internal and external factors that exist within the environment in which the business operates.

External factors that are material to Denel's going concern status:

- *Local demand for defence equipment* –Denel's primary mandate is to support the strategic capabilities of the South African National Defence Force as well as providing security solutions to some state security agencies. This has entrenched Denel's position in the local market. Defence spend around the world varies in line with regional and international considerations with government policy playing a critical role. Despite the decline in government spend reprioritisation of the budget with resultant decline in local demand, Denel has managed to diversify its revenue by driving exports diversify its revenues. Over the intervening period, Denel has been aggressively pursuing its target of 60% international revenue vs 40% local business and has ensured a sustainable pipeline.
- *Global demand for military equipment beyond Denel's traditional markets:* Denel has a strong high priority pipeline of R26bn and secured orders of R3.9bn worth of local and foreign orders and contracts. This is evidence of increasing global demand for military equipment and technologies as well as Denel's position in the global defence supply chains in respect of its distinct offering of military technologies and battle proven platforms. The significant priority pipe-line bears testimony to Denel's success in building confidence and the reopening of doors for significant opportunities especially in our traditional markets.
- *Market access to increase exports and maintain international footprint:* Denel's market access and successful cooperative ventures in foreign markets has been the product of a supportive government policy mainly the DoD, DPE and DIRCO Denel continues to invest in and nurture these relationships in order to navigate geopolitical considerations as evidenced by its order pipeline as well as well as maintaining its investment, particularly in the Middle East.
- *Strong relationship with and evolving policies of financial institutions:* Whilst Denel has received crucial funding allocation from the NT, the company relies on the local financial sector for banking services including obtaining guarantees for contracts. Despite constraints Denel has maintained its relationships with its bankers and continue to build confidence with the financial sector. Denel is working with its banking partners and NT respectively to develop plans to proactively de-risk the company from banking policies that are averse to the defence sector.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

41. GOING CONCERN (CONTINUED)

Internal factors that are material to Denel's going concern status:

1) Liquidity constrains

The directors have reviewed the budgets and cash flow forecasts for the next 12 months, as well as the current liquidity and solvency position of the group. The directors ascertained that there are certain months where cash flows generated by operations are negative, casting significant doubts about liquidity due to short-term constraints. Denel has implemented strategies to address these short-term cash challenges; renegotiating contractual terms with clients in order to maintain positive cash and ensuring the execution of contracts take priority. Denel is also engaging both the Department of Public Enterprises (DPE) and National Treasury (NT) to unlock the balance of the Special Appropriation funds to the value of R914m. To secure the sustainable management of long-term cash flow there is a drive to expedite execution of existing contracts and to maximise profitability. Management is also focused on the strengthening of internal controls throughout the business and to contain costs in order to reduce losses.

2) Continuous losses that exist in the business

Denel has been reporting losses generated from operations for consecutive years including 2022/23 (when excluding the non-recurring R992m other income that was received from the disposal of the DMBT). Management is looking at increasing revenue generated by operations and improving efficiencies. In 2024/25 Denel is forecasting to increase its revenue to R2.1bn, a growth of about 28% from the 2023/24 financial year. This expected revenue growth is backed up by secured and signed contracts that are already in place and some already in the execution stages. If this revenue is achieved, Denel is expected to break even. Revenue is expected to grow to R3.5bn by the end of the 2026/27 financial year and an operating profit margin of 10% will be achieved.

3) Non-performance of a major project

The Infantry Fighting Vehicle programme has been plagued by delays since the start of the programme. The main contributor to this delay has been the inability to execute the programme efficiently; as a result of scope creep that affected the freezing of the scope of the project. Furthermore, the phase ii contract was signed before reaching the milestones required for the production baseline; this led to a situation where phase i of the project was not executed on time. It is further noted that employees deployed to execute the programme were mismatched resulting in current programme/project managers not being outright project managers, but engineers adapted to project manage programmes in order to fill the gaps. Mitigating factors include: Considering Denel's lacklustre performance in executing some major programmes, the business has adopted a programme management framework which follows principles of project management and thus, define these principles to ensure governance and compliance in programme delivery. Furthermore, as the company is redefining itself after the conclusion of the s189 process, skills assessment is being implemented to ensure fit for purpose placement of employees. In addition, performance management and contracting has been implemented as it is central to ensuring efficiency and accountability in the business.

4) Critical Skills Shortage (vacancies)

Denel's performance is highly dependent on the availability of specialised and critical skills that are often scarce and in high demand. Denel's value chain extends to the industry which makes its involvement critical for delivery of programmes in Denel. This requires Denel to adopt a pragmatic approach of aligning critical skills to its core competencies whilst developing capacity in the industry for certain activities. This model has been optimised over a number of years with Denel positioned as the design authority and integrator for sovereign and strategic capabilities.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

41. GOING CONCERN (CONTINUED)

Denel's head count has reduced dramatically over the last 3 years due to a deliberate strategy to right-size the company, natural attrition and job insecurity due to low output prior and after the COVID-19 pandemic. Denel's current headcount of 1600 people is aligned to the current orders on-hand and the foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and test, the hybrid model including using internal skills as available, retraining internal resources, contracting individuals in, and subcontracting out is used and expanded on, where required. Furthermore, a plan to recruit for the medium-to long-term for sustainability and growth phases has been developed. The success of the hybrid model has been demonstrated at the entities that have been able to deliver to customers despite the loss of inhouse skills. Examples being the A-Darter Air-to-Air Missile programme, the G5 and G6 Upgrade programmes, as well as the Umkhonto Missile System upgrades and the Armoured Vehicle 8x8 programme for international clients.

To address the current vacancies that exist in the business, approximately 15% of such positions would require specialist recruitment (and or long-term training). The other 85% would either be available and able to fulfil the required function or can be upskilled through training. This training will be planned and phased so that the individuals are given the responsibility at the appropriate time so as to ensure that there are no adverse effects on operations (e.g. subcontracting of mentors).

Management recognises the challenges and threats that are caused by the current vacancies in the business and is on a recruitment drive to fill the critical vacancies both at Corporate Office and at operating divisions, e.g. the Company has recruited a permanent Group Chief Executive Officer and a Chief Audit Executive – both positions were vacant for close to five (5) years. With effect from 1 April 2024, the Company will have appointed the Group Executives in charge of the new Divisions (following the restructuring) with full delegated authority, albeit on an interim basis, but with a commitment to have permanent appointees by the end of Q1 2024/25. All the interim appointees are from within Denel. This will ensure continuity when the permanent appointments are made. Some of the interim appointees are actually eligible to be considered for permanent appointments.

Denel also enjoys a stable labour relations environment and maintains good relationships with the two recognised Trade Unions (NUMSA and Solidarity). The stability of the relationships was demonstrated in August 2023 when the Denel Board, Management and Organised Labour (OL) agreed on a performance pact, which would see joint commitment to help the company meet its objectives. OL committed among others. To uninterrupted operations and working longer hours as may be required.

5) Recap conditions to access the R914m immediately

There are conditions attached to part of the recap proceeds that were received in 2023. To unlock the ring-fenced amount Denel had to fulfil certain performance conditions, this included a commitment by Denel to raise R1.8bn through the sale of non-core assets to support the funding for the turnaround plan. Denel has since raised R992m through the sale of DMBT (as part of non-core) which represents about 55% of the total R1.8bn.

For the implementation of the selling of non-core assets, Denel requires DoD concurrence. The DoD has indicated that it is still considering Denel's request.

While waiting for the DoD response, Denel has considered alternative options to make sure sufficient funding is available for the execution of the turnaround plan. These alternative plans were discussed with National Treasury for its consideration to release the recap funds that are currently ring-fenced. Denel has commenced leveraging and optimising the utilisation of its property portfolio to generate cash.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

41. GOING CONCERN (CONTINUED)**6) Plant and infrastructure conditions**

As equipment ages, it tends to fail more frequently, and requires more extensive maintenance and repair. As part of an overall maintenance strategy, Denel has identified ageing plant, equipment particularly in the PMP division. Denel has put in place, as part of its maintenance strategy, a regime to maintain such items in a state of good repair and efficient working order. In the medium to long-term, Denel has budgeted for targeted capital replacement in the recap funds to minimise the risk of business interruptions.

7) Bank guarantees

The nature of the business in which Denel operates is such that bank guarantees are required before a contract can be concluded with a potential customer. A bank guarantee is an assurance that a bank provides for a contract between two external parties. The bank guarantee serves as a risk management tool for the customers for the prepayment to start the execution of a project. By issuing a guarantee the bank therefore assumes a liability for the execution and completion of the contract. Capacity and appetite for banks to issue guarantees to Denel has been constrained due to historical losses as well as poor finance and operational performance. Denel is in conversation with the National Treasury and private equity providers, respectively, to expand capacity for guarantees.

8) Turnaround strategy

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

During the first part of Denel's Turnaround strategy, it put significant 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.

As part of the turnaround strategy, Denel focused on bringing operations back into production as evidenced in the deliveries of the Armoured Vehicle 8x8 Programme turrets in South East Asia, G6 and Vehicle Spares Deliveries in the Middle East. Despite budget constraints it restarted and revamped the SAAF A-Darter Missile programme, concluded local and international client aerospace testing at the Overberg Test Range, ensured ongoing deliveries from the Integrated Systems team to the SA Army, and continued support of the SAAF's Fixed and Rotary Winged assets.

While Denel's head count has reduced dramatically over the last four years, the current headcount of approximately 1 600 people is aligned to the current orders on-hand and foreseen order intake in the short-to medium-term. Where there are core skills gaps in design, assembly and test, Denel has embarked on a hybrid model of using internal skills as available, retraining internal resources, contracting individuals in, and subcontracting. It is also recruiting for the medium- to long-term growth.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

41. GOING CONCERN (CONTINUED)

In parallel, Denel ensured that it is back on the preferred supplier lists in the market so as to qualify to submit a formal response when the RFPs are sent out. Denel has demonstrated its capabilities and responded to technical and commercial Q&A to stay back on the potential supplier lists, developed localisation models to qualify to bid, and planned for mandated in-country demonstrations to qualify to bid. The brand has recovered tremendously over the last year where the high priority campaigns are in excess of R26bn. Over the last year Denel's sustainability has improved significantly and has secured more than R3.9bn worth of local and foreign orders and contracts in the Aerospace, Integrated Systems, Landwards and Guided Weapons domains to be executed in the current Corporate Plan period. The first major order (Middle East Client G6 Upgrades worth more than R2bn) is in the final negotiation stage. All of these planned efforts are aimed at increasing revenue and margins for sustainability, while the focus shifts to long-term business for growth.

CONCLUSION

Given the challenges and mitigations outlined above Denel proposed financial statements on a going concern basis, with the board expecting that the risks will be reduced by contracts to the tune of R3.9bn which have been signed in 2024, coupled with the actions initiated by management to address non-performances/inefficiencies, the board's action to stabilise the leadership by appointment of the Group Chief Executive Officer in Feb 2024, Chief Audit Executive on 10 May 2024 and eminent appointment of the Group Chief Financial Officer on 24 June 2024. The board, accordingly, 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.

42. EVENTS AFTER THE REPORTING PERIOD

Appointment of the Chief Executive Officer

The Minister of Public Enterprises, announced the appointment of Mr Tsepo Monaheng as the new Group Chief Executive Officer (GCEO) of Denel on 8 December 2023.

The Board welcomed Tsepo into this role and looks forward to working with him to implement the turnaround plan and to provide leadership and direction, in line with the company's vision, values and strategic drivers. This appointment underscores the Board's commitment to reposition the Denel Group and put the company on a firm strategic path to rebuild and expand on the local and critical aerospace, defence and related technologies whilst ensuring sustainability of the sovereign and strategic capabilities for the South African National Defence Force.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

42. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)**Provisional precautionary suspension of senior employees relating to the repayment of Democratic Republic of Congo (DRC) prepayment.**

The Board became aware of the possible fraud related to the DRC on the 2nd of April 2024 by way of a press release. According to a news article Brigadier General Ngoy, the then DRC Military Attaché, instructed the legal representative to release funds relating to a refund of a prepayment that was received from Denel to an account in the name of the DRC Embassy using his active authority as a signatory of the Defence Account of the DRC.

The Board resolved to launch a full investigation into the process undertaken which resulted in the refund of the prepayment to the DRC, to be paid into the ZAR bank account of Mr Van Heerden Trust Account. Given the seriousness and gravity of the matter above, relevant implicated individuals, including senior employees, were placed on provisional precautionary suspension on the 08 April 2024, in order for the investigation to proceed unhindered.

Disposal of 30% shareholding in Hensoldt Optronics (Pty) Ltd

Denel had an intention to dispose of its 30% shareholding in Hensoldt Optronics (Pty) Ltd, in terms of section 54(2) (c) of the Public Finance Management Act (PFMA). These shares were disclosed as held for sale as at 31st March 2023. On the 22 September 2023 Denel received a formal letter from the Department of Enterprises noting its non-support of the disposal of the Hensoldt Optronics (Pty) Ltd shares as they were considered as core asset given that the core missile expertise resides within this entity.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND MILLION	GROUP			COMPANY		
	2023	2022	2021	2023	2022	2021

43. IRREGULAR EXPENDITURE

	2023	2022	2021	2023	2022	2021
.						
Deviations from the procurement process not adequately approved	-	-	9	-	-	9
Add: Irregular expenditure incurred in the current year Suppliers not registered on the central supplier database Contract extension not adequately approved	20	22	68	-	-	-
Deviations from the procurement process not adequately approved	-	-	2	-	-	-
Insufficient quotes acquired	-	-	5	-	-	-
No Competitive bid process	-	-	9	-	-	-
Procurement done without following a prescribed / compliant Legislation	1	5	7	-	1	6
Sole supplier approval not obtained from relevant authority Tax Clearance Certificates on	6	1	14	-	5	-
Foreign as well as local suppliers Contract extension not adequately approved Contract Exceeding 15%	2	7	2	-	-	-
threshold without approval Appointment of Technical Advisors	-	1	1	-	5	1
	10	5	15	-	15	-
	-	2	5	-	-	-
	-	-	13	-	-	5
	-	-	2	-	-	2
Irregular expenditure as at 31 March	39	43	152	-	26	23

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

	GROUP			COMPANY		
FIGURES IN RAND MILLION	2023	2022	2021	2023	2022	2021

44. FRUITLESS AND WASTEFUL EXPENDITURE

	2023	2022	2021	2023	2022	2021
Prior period adjustment	-	10	(89)	-	10	-
Fruitless and wasteful expenditure - relating to prior year	-	1	-	-	1	(86)
Fruitless and wasteful	-	2	-	-	2	-
Fruitless and wasteful expenditure - relating to current year	-	28	17	-	28	12
Less: Amount resolved		(1)	-	-	(1)	-
Fruitless and wasteful expenditure awaiting resolution	-	40	(72)	-	40	(74)
Analysis of current year's fruitless and wasteful expenditure						
Interest and penalties charged	-	5	1	-	5	1
Penalties on late deliveries and late payments		23	13	-	23	7
Regulatory and		2	3	-	2	4
statutory compliance						
Other*		(5)	-	-	(5)	-
Fruitless and wasteful expenditure awaiting resolution		25	17	-	25	12





PART 5

INFORMATION
SERVICE



GLOSSARY

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

ACRONYM	FULL DESCRIPTION
DPE	Department of Public Enterprises
DSSB	Defence Services Sdn Bhd
DTA	Denel Technical Academy
DVS	Denel Vehicle Systems (Pty) Ltd
EBIT	Earnings before interest and taxation
ECL	Expected credit loss
EE	Employment equity
ERW	Explosive Remnants of War
EUR	Euro
EXCO	Group Executive Committee of Denel
FIFO	First-in-first-out
G4	Sustainability Reporting Guidelines
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GDP	Gross domestic product
Government	South African government, unless otherwise stated
GRI	Global Reporting Initiative
Hensoldt	Hensoldt Optronics (Pty) Ltd, previously known as Airbus DS Optronics (Pty) Ltd (Airbus)
HR	Human resources
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICT	Information and Communication Technology
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IP	Intellectual Property
IR	Integrated Reporting
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISO	International Standards Organisation
IT	Information Technology
Kg	Kilogram
King IV	King Code of Governance Principles and the King Report on Governance in South Africa 2016

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

ACRONYM	FULL DESCRIPTION
R/Rand/ZAR	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
Rm	South African Rand million
S&E	Social and Ethics
SAAF	South African Air Force
SA Army	South African Army
SADI	South African Defence Industry
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
VSP	Voluntary Sewerage Package

CORPORATE CONTACT DETAILS

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ANTI FRAUD AND CORRUPTION

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