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OF THE REPUBLIC OF SOUTH AFRICA

PARLIAMENT: FOLLOWING UP ON OUR COMMITMENTS TO THE PEOPLE

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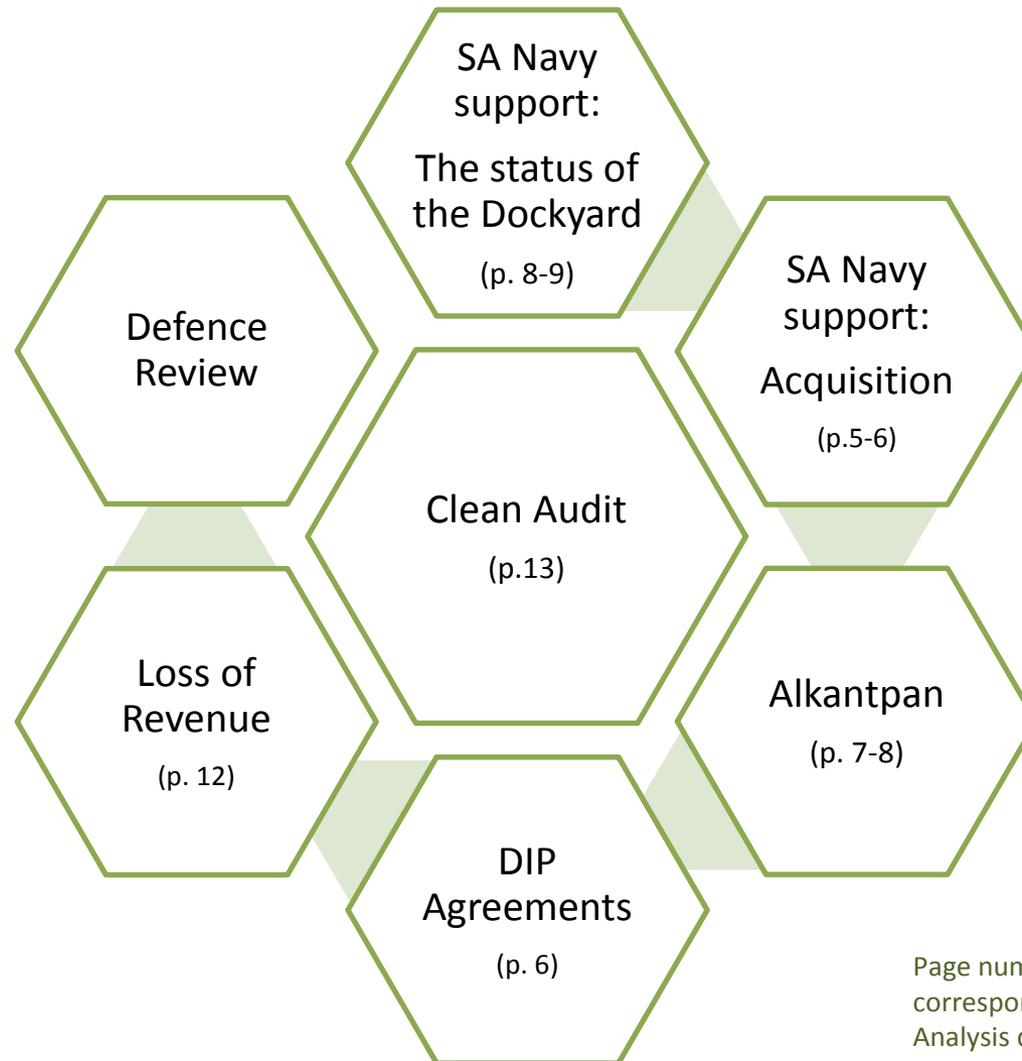
Analysis of the Armscor 2015/16 Annual Report

- Date: 11 October 2016

Armcor 2015/16: Key issues



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Page numbers indicated reflect the corresponding sections in the Analysis document.

SA Navy Support: Dockyard



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- Due to previous concerns, the Dockyard is now operating under a new management system
 - The SA Navy has sovereign control of the dockyard
 - Armscor is the contracting agent
 - Denel manages and operates the Dockyard
- In 2015/16, the Dockyard achieved 97.3% of milestones for planned maintenance; However the SA Navy pointed to limited Dockyard capacity.



SA Navy Support: Acquisitions



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Updates on the following acquisitions are required:

- *Project Hotel* (Purchase of a new Hydrographic vessel): By June 2015, offers have been received and the navy is in the process of reviewing its budget to determine affordability.
- *Project Biro* (Purchase of three Inshore- and three Offshore Patrol Vessels): Offers were received by September 2015, and the navy is in the process of reviewing its budget to determine affordability.
- *Tug Boats* purchases successfully completed.



The future of Alkantpan remains unsure.

- The facility falls within the Square Kilometre Array (SKA) focus area. Radio signals and other factors at Alkantpan may influence scientific research at the SKA. There is an urgent need to finalise this matter and determine the future viability of Alkantpan.
- 64% of Alkantpan income comes from commercial revenue streams.



Defence Industrial Participation (DIP)

- DIP relates to the obligation of a foreign supplier to reciprocate defence related business in South Africa as a result of a Defence acquisition.
- 16 DIPs currently administered by Armscor.
- 1 outstanding DIP agreement from the SDP in 1999 related to MBDA (A European based missile developer and manufacturer).



Loss of Revenue



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- Revenue decreased from R1.525 billion in 2014/15 to R1.395 billion in 2015/16.
- Contributing factors include:
 - A R30 million reduction in the sale of goods and services
 - A R54.6 million reduction in the allocation from the state budget
 - A R8.6 million reduction in finance income
 - A R41.4 million reduction in other income



Audit Opinion



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- Armscor achieved a **clean audit with no qualifications** from the Auditor-General.
- Armscor had R13.2 million in **irregular expenditure** in 2015/16. This is largely due to Armscor's 25% black equity selection criterion as a requirement which is in conflict with the PPPFA – Engagement with NT is ongoing.



Armcor and the Defence Review



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- Armcor will come under increased pressure in future due to decreases financial allocation to the DOD.
- Primary question: Given the imminent implementation of Milestone 1 of the Defence Review, how will this affect Armcor and will it be sufficient to prevent further loss of revenue?





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Thank you

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Questions of clarity are welcome