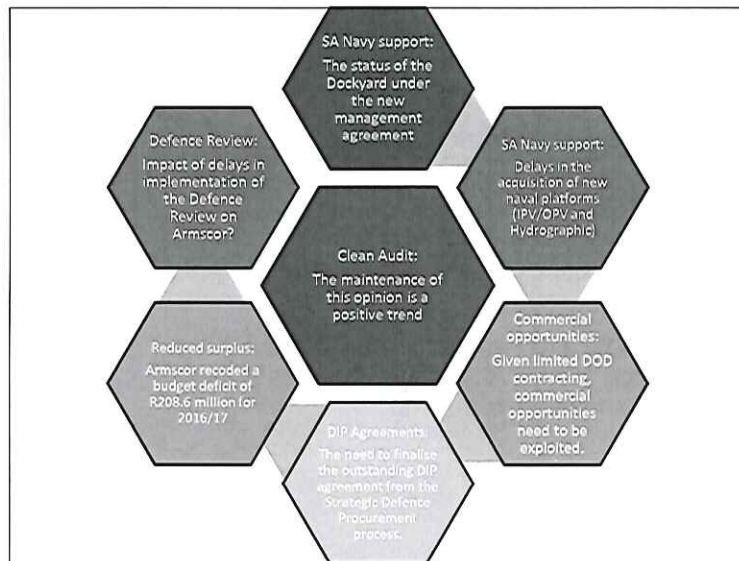


Armscor 2016/17: Key issues



Acquisitions

Key concerns related to acquisition projects:

- **Project Hotel** (Purchase of a new Hydrographic vessel): Preferred supplier appointed in November 2016, but procurement process still underway.
- **Project Biro** (Purchase of three Inshore- and three Offshore Patrol Vessels (OPV)): Negotiations still ongoing, but OPV contracting reportedly stopped.
- **Project Hoefyster** (Purchase of new Infantry Fighting Vehicles): First platforms received from Finland, but local production delayed by up to 20 months.

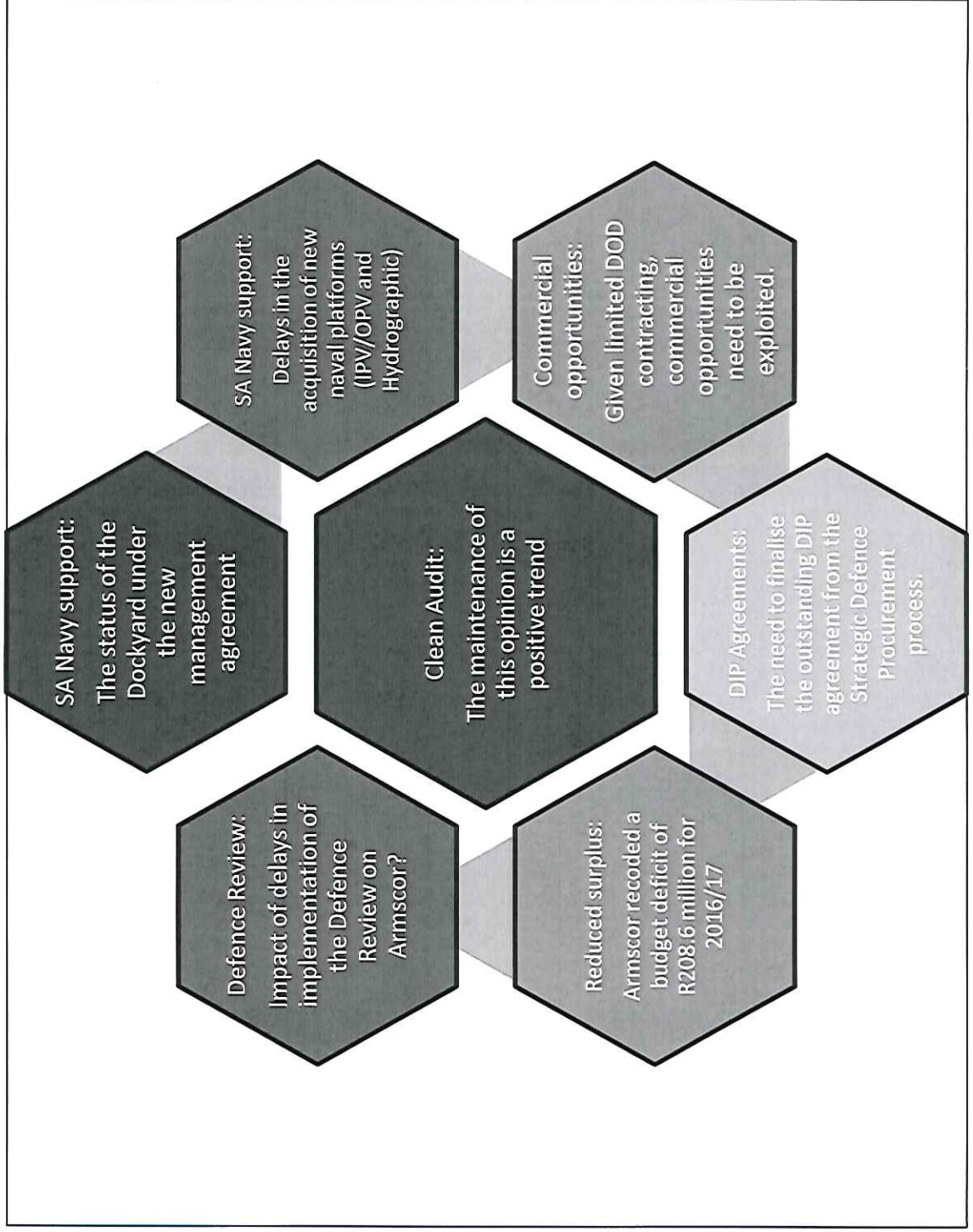


DIP Agreements

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.
- 12 DIPs currently administered by Armscor to the value of R22,465 billion.
- One outstanding DIP agreement from the SDP in 1999 related to MBDA (A European based missile developer and manufacturer).

Armcor 2016/17: Key issues



Other key matters

Other key matters:

- **Human resources:**
 - Significant transformation progress.
 - Increase in bursaries offered.
 - Questions regarding skills losses and skills transfers?
- **Performance:**
 - Procurement under 90 days not achieved.
 - Target for spending on local defence industry not achieved.
- **Finances:**
 - Reduction in the Group's surplus from R2 125.6 million in 2015/16 to R1 998.7 million in 2016/17.
 - Limited reduction in revenue generated.
 - Target for spending on local defence industry not achieved.
 - Decrease in rental income from R55.6 million to only R24.2 million.
 - "Other benefits" of the Executive directors.
- **Clean audit finding**

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Thank you

**Questions for
clarity welcomed**



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Research and Development

Various research and development facilities:

- *Alkantpan* raised additional funds through commercialization; impact of SKA should be considered.
- *Hazmat* increased sales to R14.6 million, largely through commercialization.
- *Institute for Maritime Technology* increased commercial profit. Possible contracting through the Ultrasonic Broken Rail Detector.
- *Other facilities*: Financial and commercial success of other facilities such as *Gerotek*, *Ergonomics Technologies*, *Protechnik* and *Flamengro* not included in the Annual Report.

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SA Navy Support: Dockyard

- The **Dockyard** is in process of potential transfer to a new management system:
 - The SA Navy has sovereign control of the dockyard
 - Armscor is the contracting agent
 - Denel manages and operates the Dockyard
- Status update on Dockyard transfer is required.
- In 2016/17, the Dockyard achieved 95.2% of milestones for planned maintenance.

