ARMSCOR
Armaments Corporation of South Africa SOC Ltd

50 YEARS
Towards a Sustainable Future

Annual Report
2017/18

GATEWAY TO
DEFENCE
SOLUTIONS

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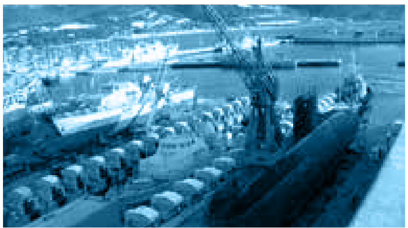

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Towards a Sustainable Future

GATEWAY TO DEFENCE SOLUTIONS

1 GENERAL **INFORMATION**

1. GENERAL INFORMATION

1.1 COMPANY DETAILS

Registered Name:	Armaments Corporation of South Africa SOC Limited
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External auditor's name:	Auditor-General of South Africa
Banker's name:	ABSA
Company Secretary:	Ms FM Kumalo

1.2 LIST OF ABBREVIATIONS

AAD	Africa Aerospace and Defence
ABL	AB Logistics
ADMS	Armaments Development Manufacturing and Services
Adv.	Advocate
AMD	Aerospace Maritime and Defence
Armscor	Armaments Corporation of South Africa SOC Limited
AWADM	All Weather Air Defence Missile
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
DCAC	Directorate of Conventional Arms Control
DCS	Department of Correctional Services
DDS	Defence Disposal Solutions
DDSI	Defence Decision Support Institute
DED	Docking Essential Defects
DEFTED	Defence Transformative Enterprise Development
DEPS	Defence Equipment Personnel Support
DERI	Defence Evaluation and Research Institute
DESUP	Defence Engineering and Science University Programme
DI	Defence Intelligence
DIF	Defence Industry Fund
DIP	Defence Industrial Participation
DLS	Denel Land Systems
DOD	Department of Defence
DST	Department of Science and Technology
DTI	Department of Trade and Industry
EPMO	Enterprise Project Management Office
ERGOTECH	ERGOnomics TECHnologies
ESD	Enterprise and Supplier Development
EXCO	Executive Committee
Flamengro	Fluid and Mechanical Engineering Group
GAAP	Generally Accepted Accounting Practice
GBADS	Ground Based Air Defence System
GDP	Gross Domestic Products
GQA	Government Quality Assurance

HR	Human Resources
ICT	Information Communication Technology
IMT	Institute for Maritime Technology
IP	Intellectual Property
IPMAD	Intellectual Property Management Division
MAAC	Military Attachés and Advisor Corps
MDA	Maritime Domain Awareness
MMIPV	Multi-Mission Inshore Patrol Vessel
MMIPV	Multi-Mission Inshore Patrol Vessel
MMOPV	Multi-Mission Offshore Patrol Vessel
MMOPV	Multi-Mission Offshore Patrol Vessels
MOU	Memorandum of Understanding
NCACC	National Conventional Arms Control Committee
NCACI	National Conventional Arms Control Inspectorate
NDIC	National Defence Industry Council
NDP	National Development Plan
NGAM	New Generation Arms Management
OEM	Original Engine Manufacturer
OPCW	Organisation for the Prohibition of Chemical Weapons
PFMA	Public Finance Management Act
PPE	Personal Protective Equipment
QSE	Qualifying Small Enterprise
R&D	Research and Development
SAAF	South African Air Force
SADI	South African Defence Industry
SAMHS	South African Military Health Service
SANDF	South African National Defence Force
SARS	South African Revenue Services
SCM	Supply Chain Management
SDP	Special Defence Package
SHE	Safety, Health and Environment
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprise
SOC	State-owned company
STEM	Science, technology, engineering and mathematics
TLCM	Through Life Capability Management
UAV	Unmanned Aerial Vehicle
UFH	University of Fort Hare
UN	United Nations

1.3 CHAIRPERSON'S REPORT

Vice Admiral (Ret) RJ Mudimu
CHAIRPERSON

This report represents an account of our work for the first year of operations following the renewal of the Board's term of Office by the Honourable Minister of Defence and Military Veterans, Ms Nosiviwe Mapisa-Nqakula.

It is submitted at a time when government has to reduce spending across the Board, increase revenue and rebuild our sluggish economy. During her 2018 budget speech, the Honourable Minister of Defence and Military Veterans noted with some disquiet, the declining budget allocation for the Defence Force and correctly pointed out that the Defence Force budget allocation must be mandate driven and not budget driven. We understand this to mean that the Defence Force must be allocated sufficient funding to meet its mandate and should not have to tailor the execution of its mandate to meet its budget allocation.

The Honourable Minister was mindful of the fact that the mandate to secure the people and borders of the Republic stems from the Constitution itself and that all organs of state have a duty to actively meet their constitutional obligations. Accordingly, this budget reduction is set to have serious negative effects on the local defence industry. This is because our local indigenous companies do not have parent companies abroad to tide them over during these difficult times. For them, it is a life and death situation. With this in mind, the local defence industry has progressively had to look across our shores for export sales, if only to support much needed jobs and technology development here at home.

Naturally, Armscor has not been immune to the reduced budget allocation and has for some time faced the risk of a diminishing capacity to fulfil its legislated mandate to the South African National Defence Force (SANDF).

However, in the words of the Japanese writer, Yoko Ogawa, and I quote:

"Solving a problem for which you know there is an answer is like climbing a mountain with a guide, along a trail someone else laid. In mathematics, the truth is somewhere out there in a place no one knows, beyond all beaten paths. And it's not always at the top of the mountain. It might be in a crack on the smoothest cliff or somewhere deep in the valley".

It was with this understanding in mind that Armscor pursued its Turnaround Strategy, which has been in operation since 2016. We have thus overseen the rejuvenation of our executive structure, which was achieved by combining existing departments into bigger business units and the creation of a Business Enablement unit. This has resulted in a leaner executive committee and greater synergies between the various departments as well as providing an effective platform for Armscor's revenue generation initiatives.

It is also during this period under review that the Honourable Minister took a decision for Armscor to retain the Dockyard as a strategic facility of the Navy under its management. This has required us to refine our business plans to ensure that the Dockyard is better able to serve the strategic needs of the Navy and the country as a whole, under the aegis of Operation Phakisa.

After much anticipation and plenty of background work, we were finally able to kick-start the placement of contracts in respect of the acquisition of In-Shore Patrol Vessels and Hydrographic Survey Vessels for the Navy. We are poised to ensure that this results in increased capability for the Navy and that the latter is best able to support our country's interests as a littoral State.

We remain concerned about the defence industry's ability to meet the milestones on capital projects placed on it by Armscor. The impact of the delays in meeting critical milestones and the consequent delay in cash-flows for the Department of Defence (DOD) has been the subject of careful management and measured intervention on our part.

We will keep our eyes trained on the management of the intellectual property of the DOD within the defence industry in support of the country's sovereign and strategic capabilities. We encourage the defence industry to enter into dialogue , which will lead to the signing of Intellectual Property (IP) Framework Agreements. These IP Framework Agreements will provide comfort to all concerned that the investment made by the DOD is managed prudently.

We remain committed to good corporate governance as evidence by the clean audit that we have maintained over the years. This is thanks in no small part to the vigilance of our employees and the guidance they receive from our respective Board Committees and the Board as a whole.

It was during the year under review that the Defence Sector Charter was adopted by key stakeholders in the defence industry, following extensive consultation with and approval of the resulting document by the Minister of Defence and Military Veterans. The achievement of this milestone demonstrates our commitment to inclusiveness, access and equity within the defence sector. In addition, we have provided leadership in the creation of the Defence Industry Fund (DIF), in partnership with the Aerospace Maritime and Defence (AMD).

The successful migration of both the Defence Transformative Enterprise Development Programme (DEFTED) and the Defence Engineering and Science University Programme (DESUP) to Armscor was also undertaken during this period; and in this regard we have seen an increase in the number of Small, Medium and Micro Enterprises (SMMEs) supported under the DEFTED, while a review of the reach and coverage of the DESUP was carried out in order to facilitate a more inclusive roll out of the programme to institutions that have previously not participated in the Defence Sector.

We are satisfied that as Board, we have provided the required level of oversight and support to the Executive and that the Executive has in turn focused on the operational activities that breath life to our strategy On-Time, In-Time: Towards a Sustainable Future. We expect that we will continue to refine our strategic approaches as we move from one milestone to the next.

Let me conclude with the words of the writer and inventor, Leonardo da Vinci (1452 – 1519) and I quote:

"I have been impressed with urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do".

I also wish to pay tribute to the Honourable Minister of Defence and Military Veterans for her continuing guidance in this journey of service to the beautiful people of our country. The Secretary for Defence continues to give of his time and energy to see our strategies through. The Portfolio Committee on Defence and Millitary Veterans is our rod and staff upon which we lean. My colleagues on the Board are my compass, showing me direction to our true north. The employees make our strategies come to life.

I look forward to continue serving and being awed by the good that surrounds me.

Vice Admiral (Ret) RJ Mudimu
CHAIRPERSON

1.4 CHIEF EXECUTIVE OFFICER'S REPORT

Mr KPE Wakeford
CHIEF EXECUTIVE OFFICER (CEO)

Introduction

I am pleased to lead with the guidance of the Board of Armscor during the execution of its strategy into the next phase of the company's turnaround. The Board and I have invested a considerable amount of time in understanding the business, its strategic direction, strengths and challenges.

On appraisal of the strategy, it was clear that Armscor's key strategic drivers remain largely intact; therefore our view has been to strengthen the execution of the group's strategy and set the business on a growth trajectory.

During the period under review, Armscor performed well against difficult global and local economic conditions. We have remained focused on executing our clearly established strategy and in particular the business transformation initiatives.

Armscor is now better equipped to deal with the economic realities both locally and globally as well as the dynamic global political landscape.

Defence Policy Evolution

The national priorities of South Africa as a developmental state do not emphasise defence spending. The Defence Allocation is potentially in long term decline while defence human resources expenditure is increasing for at least the short term. The recent substantial reduction of the defence allocation for the medium term introduced a scenario that falls outside the premise of the Defence Review 2015. Innovative defence and Armscor planning and implementation, within a long term austere paradigm, is now required. Changes to the defence approach to capital, maintenance and repair expenditure are to be expected by Armscor. It would be irresponsible of Armscor to assume that substantial changes in the finances of defence will not be accompanied by a demand for increased value from Armscor. The Armscor Turnaround Strategy was premised on this scenario that now became reality in 2018. The Turnaround Strategy therefore aims to maximise value to the primary clients, defence and government, while diversifying Armscor sources of income. The transformation of Armscor to ensure viability in this context is now urgent.

National Development Plan

In terms of the Service Level Agreement (SLA) with the DOD, Armscor will play a supporting role in contributing to the ministerial priorities, which is aligned to the National Development Plan (NDP).

Armscor is, as all departments must be, directing its planning towards the NDP 2030. The Corporation supports Government's goals, as expressed in the NDP, and will contribute to the following initiatives:

- sharpening South Africa's innovative edge by continuing its contribution to global scientific and technological advancement;
- implementing greater investment in Research and Development (R&D) and better use of existing resources;
- facilitating innovation and enhanced co-operation between public service, technology institutions and the private sector in areas of potential dual use (military and civilian application);
- committing to procurement approaches that stimulate domestic industry and job creation; and
- procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female-led enterprises, the youth, and military veterans.

Defence Economy

As a developmental state and from a political perspective, South Africa must balance its investment into defence against many other priorities. The defence sector should; however, be recognised for the substantial peace dividend it unlocks, the value it adds to the Gross Domestic Product (GDP) in the form of exports of defence products, the employment it provides and, very importantly, the development of young South African engineers to globally competitive standards within the defence industry.

The value unlocked by some defence industry products for the South African economy was researched. Many impressive results were uncovered. For example, the industry's expertise in the designing and manufacturing of armoured personnel carriers led to export earnings of R110 billion from an initial defence spending of less than one billion rand on the acquisition of the Mamba vehicle. For each vehicle acquired by the SANDF, 23 vehicles were eventually exported from South Africa. Many more were manufactured under license elsewhere in the world. In other cases and without formal acquisition by the SANDF, good value was unlocked for the SANDF and the country, by maturing a technology demonstrator for air launched precision munitions into a proper product, which did well on the international market. Export earnings to date exceed the initial South African investment 41 times, and major orders may be forthcoming in the future.

The South African defence industry has proven cases of excellent returns on investment from the national perspective. But innovative thinking is required to leverage its value in a paradigm of reduced DOD funding. The DIF, discussed on page 18 in this report, is a step in the right direction.

Strategic Focus

Armscor's On-Time, In-Time, Towards a Sustainable Future Strategy is based on its relevance and the sustainability of the organisation, hence the focus on building a self-sustaining business, commercialisation and expansion of Armscor services to a wider client base. This emphasis on delivering to our client is important to us, because of our firm belief that if we cannot get down to basics and perform well on this front, everything else we do pales away into insignificance.

The second year of the implementation of Armscor's strategy has proved to be a productive year with the organisation responding positively to the ongoing challenges within Armscor. This strategy has reinforced Armscor's mandate and has brought about greater efficiency in the manner in which the Corporation operates.

Armscor Turnaround

Armscor embarked on a turnaround process to meet the objectives set out in the Armscor Strategy. The project was undertaken in two phases. Phase 1: As-Is Assessment and Planning and Phase 2: Implementation. Phase 1 was concluded on 30 April 2017 and Phase 2 was approved by the Board of Directors on 12 July 2017.

The period under review experienced a further drive towards transformation of Armscor at a strategic level. The turnaround implementation phase introduced the following:

- A new Armscor Vision
- The adoption of four Strategic Objectives
- A new Organisational Structure, which aimed to reduce the Executive Committee, group functions together and the establishment of a Business Enablement Unit, Supply Chain Management department and Enterprise Project Management Office.

Arms Control Internal Compliance is currently under review to include Turnaround Strategy Initiatives. The application to amend and renew the current registration of Armscor ADMS permit will be issued in the new financial year. A marketing permit to accommodate both the Turnaround Strategy Initiatives, as well as the scope of activities for Defence Disposal Solutions was submitted to the Directorate of Conventional Arms Control (DCAC) and issued in March 2018, which is a critical policy change. Armscor commenced implementation of the disposal turnaround strategies, increasing revenue derived from collaboration with the local defence industry. The organisation has furthermore initiated some attractive revenue generating opportunities for the future.

The Sustainability department has engaged various international and local stakeholders such as multinational organisations, South

African Defence Industry (SADI) and government departments to promote Armscor's services and follow-up on potential clients to fast-track the exploitation of opportunities identified for revenue generation. A framework for innovative funding solutions as well as a proposal of an expanded treasury function and structure now exists to support the organisation's financial turnaround.

Armscor is focusing on the activities listed below:

- Multiple sustainable income streams;
- government to government trade and investment services in the defence economy;
- leveraging of the Endowment Properties;
- a renewed focus on Africa and the BRICS Nations;
- building relationships with the United Nations to provide peace keeping related services.

Looking ahead we will build on the positive momentum of improving efficiency and transforming our organisation. I am confident that the foundation for a better future has been established and that we will in future obtain better results.

Performance review

Highlights and challenges

During the year under review, Armscor performed well and I am delighted to share some of the developments that took place and achievements that were registered:

Parliament

The DOD and Military Veterans, as well as all public entities under the department successfully tabled for the fourth year their plans in Parliament, which means full compliance by the department with National Regulatory Framework.

The Presidency has selected, once again, the Department of Defence and Military Veterans and the public entities (Armscor) within this department as the benchmark for strategic planning for all government departments and public entities.

Corporate Goals

During the reporting year, Armscor reviewed the Strategic Objectives to align them to Armscor's strategy with a focus on building a self-sustaining business, which includes:

- Revenue Generation
- Cost Management
- Efficient and Effective Delivery
- Stakeholder Management

Armscor continued to maintain its high level of performance and I am pleased to report that during the period under review, most of the corporate goals were met in accordance with the Corporate Plan, while those not achieved were achieved later than planned owing to a number of factors, some of which were beyond our control. In some instances, we were able to exceed some of the targets that we had set for ourselves.

On the Armscor functions measured through SLA objectives some of the acquisition projects objectives were met and exceeded, Research and Development objectives were achieved and exceeded, and for the Dockyard all objectives were achieved. Armscor performed exceptionally well on the SLA objectives.

Funding of Armscor

Armscor's primary source of funding remained the government allocation. The year under review was the last of the three-year reduction as directed by National Treasury. To this extent Armscor was required to fund the annual shortfall of its operating activities resulting from the reduced allocation in the transfer payment from its own reserves. This shortfall in the transfer payment allocated led to the significant deficit budgeted for the period under review.

To defray its operating activities in the execution of its statutory mandate, Armscor is currently cross subsidising the allocation received from the DOD by 30% to provide its primary functions. The DOD payment does not cover Armscor's personnel cost.

Armscor's services provided to the DOD are formalised in the SLA. The strategic facilities maintained by Armscor, is currently critically underfunded from DOD transfer payment, and subsidised from Armscor's corporate budget. Cost containment and cost prioritisation continued at Armscor to reduce the budgeted deficit and to reduce the impact on its own internal resources. In addition, Armscor also generated some revenue from new revenue streams that assisted Armscor to achieve a net positive result of R1,7 million compared to the budgeted deficit of R25,5 million.

As the defence budget is decreasing in real terms, it is also foreseen that Armscor's allocation may also be negatively influenced, which will impact on Armscor's capabilities and future sustainability. However, although the capital budget of the DOD is reduced an additional workload is experienced by Armscor to provide workable and deployable solutions to the DOD while increasing maintenance support is required to ensure the availability of existing DOD equipment. Also, significant work is done in the early stages of a project before any funds are allocated to the project. The pressure on Armscor's current capacity is exacerbated, due to Armscor increasingly becoming involved in earlier phases of projects and in maintenance and procurement requirements to assist the DOD and SANDF.

Armscor is a service based organisation of which human capital is one of its largest assets and personnel cost remains the largest cost driver as personnel cost exceeds 72% of the total budget. Armscor has frozen all non-critical vacancies; however, any further reduction in the government allocation will result in:

- Forced pro-rata reduction of personnel (retrenchment with associated costs).
- Possible closure of strategic facilities.
- Inability to subsidise the operation and recovery of the Simon's Town Naval Dockyard.
- Loss of critical skills and capacity that will increase the risk to perform essential services for the DOD in accordance with the SLA.

Armscor's technical personnel complement includes the following:

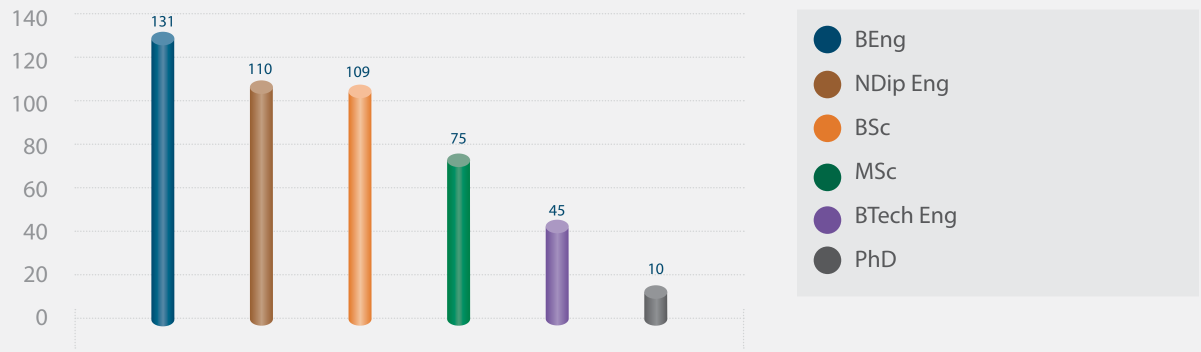


Figure 1: Amscor employment figures

Armscor continued to investigate alternative sources of funding through leveraging its strengths to supplement its existing funding and to become sustainable over the longer term. This was done without affecting our main role of servicing the DOD. This is done to alleviate the pressure on the national budget and its impact on the declining defence budget, which is competing with other national priorities. It is; however, foreseen that the impact of these activities will only result in revenue being realised over the medium to longer term.

Corporate Governance

Armscor has applied the principles of good corporate governance across every single facet of Armscor's operations.

Once again Armscor has lived up to its values and subscribes to principles of good governance. Armscor received an unqualified audit for the 2017/18 financial year from the Auditor-General of South Africa.

In addition, Armscor will continuously improve the risk and compliance modalities to ensure good governance while also improving financial and operational efficiencies.

Acquisition

Armscor continues to display commitment and technical expertise in delivering programmes in support of the DOD. One of Armscor's roles is to ensure value for the DOD in payments to the defence and related industry, against the achievement of contracted milestones and the achievement of stipulated quality standards.

During the period under review, Armscor experienced a continuation of the decline of industry's ability to meet its contractual obligations and in particular the performance of Denel. With Armscor's acquisition portfolio to Denel exceeding 38%, the dismal performance of Denel had a significant impact on Armscor's ability to meet its targets relating to cash flow. In spite of the adverse impact of industry underperformance, Armscor has still managed to achieve and exceed its agreed targets for the year of 95% cash flow against the planned cash flow for both capital and operating funds by a significant margin. However, we continue to view Denel as a sister organisation and will do everything within our powers to assist Denel to regain sustainability. The impact of Denel's cash flow challenges has negatively impacted on their supply base and the defence industry as a whole. Armscor's legislative mandate to support industry continues to guide our planning and strategic interventions. We will continue to collaborate with AMD to address this concerning pattern of events.

Armscor's achievement is mainly attributed to significant advance payments awarded on the two major shipbuilding programs that served to offset the underperformance elsewhere in industry. Furthermore, while taking those contracts into consideration for which cash flow could not be realised during the past financial year due to external factors, Armscor also continued the trend of the past seven years to achieve cash flow in excess of 70% of adjusted ordered values.

During the period under review, Armscor managed and executed contracts to a total value of R12.270 billion for the DOD, of which R7.744 billion, or 63,11% of the total acquisition and procurement portfolio related to technology and capital acquisition projects, while procurement and maintenance and support contracts to a value of R4.526 billion or 36,89% of the total portfolio were managed and executed during the same period. The value of capital acquisition contracts managed during the review period increased from R6.842 billion (60,22% of total portfolio) during the 2016/17 financial year to R7.744 billion (63,11% of total portfolio) during the current review period, while the value of procurement and support contracts decreased marginally from 37,78% to 36,88% of the total portfolio.

The current capacity requirements on Armscor to manage maintenance and procurement requirements from the SANDF already exceeds that of the capacity requirement to manage the Strategic Capital Acquisition Master Plan portfolio and this requirement is increasing on an annual basis.

In an endeavour to improve the acquisition business towards the Acquisition Excellence Corporate Initiative, a comprehensive review of the suite of acquisition management documentation was undertaken. The review of documentation resulted in a completely updated suite of acquisition management and governance documentation that better align the acquisition processes with the latest international definitions and best practice. Armscor is already applying its expedited acquisition process in certain projects.

In accordance with the corporate restructuring and in keeping with National Treasury guidelines, excellent progress was made with the formation of a dedicated Supply Chain Management (SCM) Department within Armscor. The previous Procurement Secretariat and Internal Procurement functions were migrated to the newly formed SCM Department and with effect from the start of the 2018/19 financial year, all procurement activities, both internal and for external clients will be centralised in the SCM Department.

Research and development

The business unit continued to deliver on defence operational and scientific research, test and evaluation services, technology management, analysis and industrialisation and intellectual property management services. Aligned with the mandate given to Armscor, the Research and Development (R&D) also managed the strategic capabilities and facilities under its control during the period under review.

During the period under review, the business unit earned 27% of the total business portfolio of R493.7 million from commercial contracts and 73% from the DOD. The main contributors to the local and foreign commercial income are both the Alkantpan and Gerotek Test Ranges together with Hazmat Protective Systems. To ensure sustainability and effective management of these strategic and sovereign capabilities, Armscor still explore business partnering under its Turnaround Strategy. Insufficient funding to ensure the maintenance of strategic facilities and the effective execution of the department's mandate still remained a challenge during the 2017/18 financial year. Although the R&D is constantly exploiting commercial opportunities the commercial revenue decreased with 11,9% during the 2017/18 financial year. The total business portfolio has; however, increased with R42,3 million for the 2017/18 financial year, which was as a result of the increased allocation and additional work performed for the DOD.

Dockyard

The Dockyard's ISO/SANS 9001:2015 Quality Management System transition audit via South African Bureau of Standards (SABS) commercial was undertaken with the purpose to establish whether the Quality Management System was in compliance with the international standard requirements. Certification against the new international standard was successfully obtained through the external certification authority.

Strategic Safety, Health and Environment (SHE) corporate reviews were primarily structured around the legal compliance programs and key operational statistical programs. The service from the new occupational health care provider has been above standard and health projects were all completed during the year under review. A SHE legal compliance audit was undertaken by an external entity and it provided the Dockyard with an update in terms of its current compliance levels.

Progress was made in terms of the required capital equipment items that will ultimately contribute to the facilities improvement initiatives. The dry-dock, lift platforms and other equipment remain essential in support of the required maintenance of the SA Navy Fleet as well as supporting the commercial initiative. It is critical that these strategic assets be maintained in operational conditions with effective maintenance scheduling and planning of outmost importance.

An effective legal engineering solutions partner plays a central role in managing the maintenance and operational activities of dockyards for naval vessels, generation stations, equipment and plants. Fundamentally, engineering services within the dockyard helped to control the maintenance, safety and costs of all SA Navy systems, platforms and vessels as well as the dockyard operations. The objective was to reduce the number of costly or error prone predetermined maintenance and disassembling inspection activities through proper designs, testing and a comprehensive maintenance philosophy.

The transfer of the Dockyard from Armscor to Denel was governed by the transfer agreement. These agreements contain suspensive conditions, which Denel had to fulfill by the 28 February 2018.

The Minister of Defence and Military Veterans took account of the fact that Denel had not met the suspensive conditions for the transfer of the Dockyard to it, despite previous extensions. Thus, the Honourable Minister correctly concluded that the Dockyard Transfer Agreement had lapsed.

The net result of the Honourable Minister's determination is that the Dockyard remains in the custody and management of Armscor. The Dockyard will continue to explore a variety of collaborative measures with the private sector to reduce the Dockyard deficit and enhance the ongoing sustainability of the Dockyard.

Transformation of the Industry

To accelerate economic transformation of the defence industry, Armscor spearheaded the development of the Defence Sector Charter in collaboration with the departments that form part of the National Defence Industry Council (NDIC). The Defence Sector Charter introduces new elements to promote inclusive participation in the economy, such as:

- Distinct recognition of Military Veterans as a designated group;
- promotion of local content beyond the designated areas by the Department of Trade and Industry (dti);
- provision of set asides;
- recognition of black equity ownership at a higher level;
- setting up a Defence Charter Council;
- Enterprise Supplier Development (ESD) Fund for development purposes; and
- Skills Development Fund for development of Defence Industry technical skills.

The Charter is currently at a stage where it was adopted by the Charter Steering Committee, approved by the Minister of Defence and Military Veterans, and submitted to the Minister of the dti for gazetting.

Development of the National Defence Industry Strategy

Armscor continues to participate with other SA Defence Industry partners in the NDIC workgroup. The National Defence Industry Strategy completed its public comments phase without major upheavals. The latest version of the strategy was presented to NDIC for adoption in preparation for submission to the Minister of Defence and Military Veterans. Steady progress is being made with an implementation framework, in a business environment of reduced DOD capital and maintenance spending flowing into the local defence and related industries.

Development of the Defence Industry Fund

The Defence Sector Charter performs optimally if funding can be made available to the new entrants into the industry. There are also ample case studies of excellent returns on investment on certain acquisition or technology projects of the DOD. In the context of limited acquisition and technology development expenditure by the DOD, an alternative source of capital is required. It was against this background that Armscor and AMD set out to establish an independent DIF. It is envisaged that, through the DIF, the local SMMEs in the defence industry will be able to compete in the global defence market. It will also help with the transformation of the industry by introducing new entrants into the industry, while ensuring security of supply of strategic and sovereign capabilities to the SANDF.

The selection of a licensed financial service provider through an open tender process, to establish and operate the DIF is imminent.

Human Resources

Human Capital remains the most valuable asset for Armscor and plays a pivotal role in Armscor achieving its organisational goals. Armscor's commitment to investing in human capital and in technology ensures that Armscor thrives in delivering quality service to the client.

Human Resource (HR) continues its management interventions in transformation, succession, skills and knowledge transfer programmes. Transformation continues to be a key focus for the Corporation. The transformation targets have progressed well and the effectiveness of the succession plan has increased the readiness levels of the successors.

A new Employment Equity plan was developed, focusing on increasing the representation of women in senior management and people with disabilities. It commenced on 1 April 2017 and will run until 31 March 2020.

Armscor implemented programmes to ensure continuous development of managers' competencies such as New Managers Programme and a Management Advanced Programme in partnership with local business schools. Three employees completed their programme in December 2017 and five are continuing with the programme.

Nine employees are busy with Armscor international study initiatives. One-hundred-and-thirty four bursaries were awarded to undergraduates at various local universities during the period under review.

DESUP is for the Human Capital Development and Basic Research work that can feed into the SANDF, Armscor and the SADI. The objective is to create and maintain the Defence R&D capability for SANDF that is inclusive and transformed. DESUP Outreach Programmes are in five provinces.

Corporate Social Investment

As a truly South African organisation, Armscor believes in development, nation building and in improving the quality of the lives of our people – a duty and responsibility it embraces fully.

We remain dedicated to serving the communities in which we live and work through our Corporate Social Investment (CSI) programmes.

Armscor's education investment is to improve results in the Science, Technology, Engineering and Mathematics subjects and provide interns with on-the-job training to develop technical skills and gain work experience and develop human capital.

Military Veterans

Armscor's collaborate with the DOD and Military Veterans includes supporting Military Veterans, a newly designated group in the Enterprise Supplier Development, with revised BBBEE Codes of Good Practice. A dedicated programme addressing the needs of Military Veterans is in force.

Armscor partnered with Masisizane Fund to embrace small businesses including Women Military Veterans in various incubation initiatives. CTU's Manufacturing Primary Co-Operative (100% black owned and women managed) is an incubator programme for skills transfer to Military Veterans resulting in financial and operational independence. CTU manufactures hospital linen, uniforms and corporate and personal protective clothing including equipment for the past eight years.

Acknowledgements

A special word of thanks is extended to the Honourable Minister, Ms Nosiviwe Mapisa-Nqakula and her dedicated team for their political guidance and support. Thank you to the Secretary for Defence, Dr Sam Gulube and the Chief of the SANDF, General Solly Shoke, for the invaluable support to Armscor. A word of thanks is directed to the officials of the DOD who were at all times available and willing to assist in operational matters. We assure them of our support and commitment.

Our sincere thanks go to the Parliamentary Portfolio Committee on Defence and Military Veterans, which has contributed immensely to the successful execution of our mandate, through their guidance and robust oversight role, which is appreciated.

It was indeed a pleasure to serve our primary clients, namely the DOD as a whole, the South African Police Service and South African Correctional Services. We will continue to provide such necessary support within the budget constraints when called upon to do so.

To all other stakeholders, we thank you for your support and assistance in the past year in helping Armscor to render an excellent service to all its clients.

The defence-related industry, under the stewardship of the South African Aerospace Maritime and Defence Industry Association continues to contribute effectively to the development of the organisation through ongoing engagements and for that I am grateful.

Special thanks go to all Board members for their wisdom, direction and oversight role that the Board played during the year under review. Without their unwavering support, the implementation of the new strategic direction of Armscor would not have materialised.

My unreserved appreciation is extended to the Executive Committee (EXCO) for their professionalism that the organisation displayed in the discharge of its responsibilities, continued to make Armscor an engineering centre of excellence in the country.

Thank you to all the staff, for their commitment and diligence that continued to make Armscor an organisation that aspired to work for.

Armscor can, with confidence, look forward to meeting the challenges of the future and playing its important role in the "Defence Team" and in the Defence Ministry. The Armscor name and flag will, I am quite certain, continue to fly proudly.

We look forward to the new fiscal year despite its challenges. I am confident that under the wise and competent leadership of the Board and Executive Committee, these challenges will be turned into opportunities.

Thank you!

K. Wakeford

Mr KPE Wakeford
CHIEF EXECUTIVE OFFICER

1.5 DIRECTORS APPROVAL OF THE ANNUAL REPORT

The Board recognises and acknowledges its responsibility for the Group's internal control system.

Management is responsible for preparing the separate Annual Financial Statements and the Group Annual Financial Statements in accordance with the South African Statements of Generally Accepted Accounting Practices.

The Directors, supposed by the Audit and Risk Committee, are satisfied that management introduced and maintained adequate internal control to ensure that dependable records exist for the preparation of the financial statements, to safeguard the assets of the Group and to ensure that all transactions are duly authorised.

Against this background the Directors of Armscor accept responsibility for the financial statements. The information on pages 32 - 49; 92 - 100 and 117 - 168 was approved by the Board of Directors on 30 August 2018.

Vice Admiral (Ret) RJ Mudimu
CHAIRMAN OF THE BOARD OF DIRECTORS

CERTIFICATE

In terms of section 88 (2) (e) of the Companies Act 71 of 2008 (as amended), (the Act), it is hereby certified that for the year ended 31 March 2018, the Armaments Corporation of South Africa SOC Limited has lodged with the Commissioner all required returns and notices in terms of the Act and that all such returns and notices appear to be true, correct and up to date.

Ms FM Kumalo
COMPANY SECRETARY

1.6 STRATEGIC OVERVIEW

VISION

Armscor's vision is to become the strategic partner of choice for the local public, private and security community, the rest of Africa and global partners, whilst, at the core, continuing to optimally serve the Department of Defence.

MISSION

Armscor's mission is to meet the defence matériel requirements, defence technology, research, development, analysis, and test and evaluation requirements of the Department of Defence and other organs of state effectively, efficiently, economically and holistically.

VALUES

Armscor's values are the building blocks of the manner in which it conducts its business. Armscor believes in the highest standards and is committed to transformation, transparency and accountability. We, members of Armscor, pledge commitment to the following values:

- Leading by example
- Results driven
- Customer focus
- Care and respect for others
- Excellence
- Teamwork
- Integrity

Armscor's mandate

The Armaments Corporation of South Africa SOC Limited (Armscor) is established in terms of the Armaments Corporation of South Africa Limited Act (Act 51 of 2003), as amended (called the Armscor Act). It is therefore a state-owned company (SOC) as contemplated in the Companies Act, 2008. Furthermore, it is listed as a schedule 2 public entity in terms of the Public Finance Management Act (Act 1 of 1999), as amended (the PFMA). It is further regulated by the regulations issued in terms of the PFMA and those of the Companies Act, 2008.

The Minister of Defence and Military Veterans is the executive authority responsible for Armscor.

Corporate Profile

The Armscor Act provides that:

(1) The Corporation must:
- a) acquire such defence matériel on behalf of the DOD as the department may require;
- b) manage such technology projects as may be required by the DOD;
- c) establish a programme management system in support of the acquisition and technology projects contemplated in points (a) and (b);
- d) provide for a quality assurance capability in support of:
- (i) the acquisition and technology projects contemplated in points (a) and (b); and
- (ii) any other service contemplated in this section required by the DOD;
- e) maintain a system for tender and contract management in respect of defence matériel and, if required in a service level agreement or if requested in writing by the Secretary for Defence, the procurement of commercial matériel;
- f) dispose of defence matériel in consultation with the person who originally manufactured the matériel;
- g) establish a compliance administration system for the DOD as required by applicable international law, the National Convention Arms Control Act, 2002 (Act 41 of 2002), and the Non-Proliferation of Weapons of Mass Destruction Act, 1993 (Act 87 of 1993);
- h) support and maintain such strategic and essential defence industrial capabilities, resources and technologies as may be identified by the DOD;
- i) provide defence operational research;
- j) establish a defence industrial participation programme management system;
- k) provide marketing support to defence-related industries in respect of defence matériel, in consultation with the DOD and the defence-related industries in question;
- l) manage facilities identified as strategic by the DOD in a service level agreement; and
- m) maintain such special capabilities and facilities as are regarded by the Corporation not to be commercially viable, but which may be required by the DOD for security or strategic reasons.

(2) a) The Corporation may, with the approval of the Minister –
- (i) exploit such commercial opportunities as may arise out of the Corporation’s duty to acquire defence matériel or to manage technology projects;
- (ii) procure commercial matériel on behalf of any organ of state at the request of the organ of state in question, and
- (iii) subject to the National Conventional Arms Control Act, 2002 (Act 41 of 2002), the Regulation of Foreign Military Assistance Act, 1998 (Act 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act, 1993 (Act 87 of 1993), perform any function that, the Corporation may perform for or on behalf of the DOD in terms of this Act or on behalf of any sovereign State.

b) The Minister may impose such conditions in respect of the performance of a function as may be necessary in the national interest.

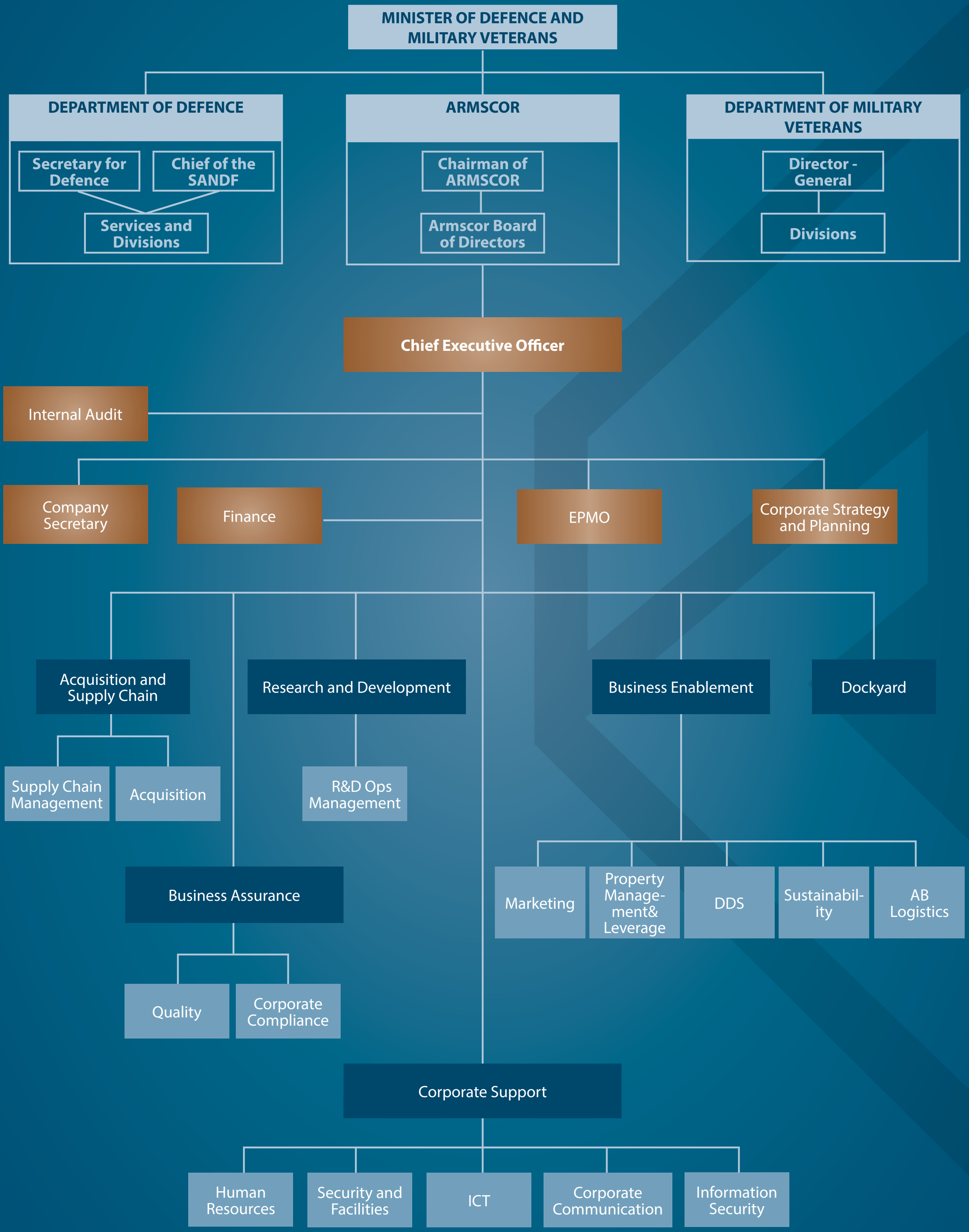
Armscor’s Objectives

The objectives of the Corporation are:

- a) to meet the defence matériel requirements of the DOD effectively, efficiently and economically; and
- b) to meet the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently and economically.

The Corporation must adhere to accepted corporate governance principles, best business practices and generally accepted accounting practices within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

1.7 ORGANISATIONAL STRUCTURE



1.8 BOARD MEMBERS

THE BOARD – Appointed by the Minister of Defence and Military Veterans.

The management and control resides with the Board of Directors, led by a non-executive Chairperson and the Deputy Chairperson. To execute its responsibilities effectively and maintain accountability, the Board established a number of committees:

- Acquisition Committee
- Audit and Risk Committee
- Technology and Industry Support Committee
- Human Resources, Social and Ethics Committee

BOARD OF DIRECTORS

CHAIRPERSON OF THE ARMSCOR BOARD

Vice Admiral (Ret) RJ Mudimu

Vice Admiral Mudimu is a former Chief of the South African Navy. Prior to this he was the Chief of Naval Staff and he also served as Inspector General of the Navy.

He served in Umkhonto we Sizwe (MK) High Command until integration of the armed forces to form the SANDF. He was appointed MK Chief of Staff Personnel and Training and was later made the Director: Integration of the Non-Statutory Forces.

He holds a Master's degree in Military Science, a Honours degree in Public Management and Governance, an Associate degree in Safety and Security, an Executive Course in Defence Development, a diploma in Human Resource Management, a diploma in Personnel and Training and a certificate in Journalism. He also received the singular honour of being conferred with a Doctorate in Technology in Applied Sciences (honoris causa) by the Durban University of Technology.

DEPUTY CHAIRPERSON

Ambassador T Skweyiya

Ambassador Skweyiya is the former South African Ambassador to France and UNESCO. She joined the Department of Foreign Affairs (now Department of International Relations and Cooperation) in 1995 and became the first female Deputy Director General, charged with managing South Africa's relations with Asia and the Middle East.

This portfolio entailed, amongst other things, overseeing the smooth transition of South Africa's diplomatic relations from the Republic of Taiwan to the People's Republic of China.

Ambassador Skweyiya holds a Master's degree in Political Science and Philosophy, obtained in Germany.

NON-EXECUTIVE DIRECTOR AND CHAIRPERSON OF THE HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

Adv. VL de la Hunt

Advocate de la Hunt is currently practising as an advocate and member of the Cape Bar. She runs a general litigation practice, focusing on administrative law and regulatory compliance.

She was previously a fellow at the Refugee Studies at the University of Oxford, Legal Advisor to the Minister of Correctional Services, Legal Advisor to the Minister of Home Affairs, Director at the University of Cape Town Law Clinic and Fellow in the Legal Resources Centre, Cape Town.

Adv de la Hunt was previously an Executive Committee Member: Association of University Legal Aid Institutions, an Executive Member: National Consortium on Refugee Affairs, Chairperson: Cape Town Refugee Forum, a Member of NICRO Women's Support Centre, a Member of the National Association of Democratic Lawyers, Commissioner of the Small Claims Court, Arbitration Panelist, Independent Mediation Services of South Africa and a Member of the Law Society of the Cape of Good Hope.

She holds BA, LLB and LLM degrees from the University of Cape Town.

NON-EXECUTIVE DIRECTOR AND THE CHAIRPERSON OF THE AUDIT AND RISK COMMITTEE

Ms CE Simpson

Ms Simpson is currently the Chief Financial Officer (CFO) of Export Credit Insurance Corporation SOC Ltd. She is a qualified Chartered Accountant with experience in financial management, audit, risk, taxation and supply chain management. She has seven years executive experience in various senior financial and CFO positions. She also has extensive public sector experience from an audit and financial perspective i.e. over 15 years expert knowledge of the PFMA, treasury regulations, the PPPFA, the Labour Relations Act, public sector regulations, corporate governance (King Code) and compliance with provisions of the Companies Act and Tax Act. Ms Simpson possesses extensive knowledge in integrated reporting, ICT management and investments, both local and offshore. She completed her Leadership and Change Management Executive Programme – Yale University (School of Management).

NON-EXECUTIVE DIRECTOR

Dr MB Khanyile

Dr Khanyile is currently the Managing Director of Marshaps College and also serves as an external supervisor for Masters and Doctoral students at the Graduate School of Business Leadership, University of South Africa. He was previously an executive at Barclays Africa Group as General Manager: Strategy and Business Sustainment. He has also worked for the DOD as Director: Planning and Programming in the Policy and Planning Division. He served as the Senior Researcher at the Centre for Military Studies, which is a part of the Faculty of Military Studies at the University of Stellenbosch.

Dr Khanyile holds a PhD in International Politics from the University of Pretoria, an MBL from UNISA and an MA in Political Science from Stellenbosch University. He has studied at various international academic institutions, such as the Christian-Albrechts-Universität zu Kiel in Germany, Ashridge College in England and the Post-Graduate Naval School in the USA. He has a keen interest, and vast experience in strategy development, value extraction, executive project management, mobile payment solutions and biometric technology.

NON-EXECUTIVE DIRECTOR

Mr RM Vokwana

Mr Vokwana is currently a businessman. His interests are divided between construction through Upahla Construction (Pty) Ltd and timber supplies, mining equipment and manufacturing through Kemac Close Corporation. He is the Executive Chairman and shareholder of both entities.

He was the Deputy Director General: Secretariat of the Defence Service Commission, DOD, as well as a businessman involved in mining, manufacturing, information communication technology (ICT) and financial services, and the Senior Manager at the National Intelligence Agency and the South African Secret Service. Prior to this, he worked for the African National Congress, both in exile and in South Africa.

Mr Vokwana holds a National Diploma in Human Resource Management from Peninsula Technikon.

NON-EXECUTIVE DIRECTOR

Mr NM Tyibilika

Mr Tyibilika is a businessman with two main interests: an engineering projects house, focused on design, development, system integration, installation, commissioning and consulting, and a steel service centre that supplies all steel grades, cut to size.

He was a manufacturing manager for Coca Cola Canners of South Africa, a consultant for the Pebble Bed Modular Reactor project in the development of a supply chain strategy and network, Executive Manager: Production for Denel LIW, Senior Maintenance Engineer for Eskom Hydro and Water, Design/Projects Engineer for Caltex Refinery and a Maintenance Engineer for Amcoal.

Mr Tyibilika is a registered professional engineer with the Engineering Council of South Africa. He holds a Government Certificate of Competence (Factories) and is a member of the SA Institute of Mechanical Engineers.

He holds a BSc Mechanical Engineering from the University of Cape Town and has completed an Executive Development Programme with the UNISA School of Business Leadership.

NON-EXECUTIVE DIRECTOR

Ms T Mhlari

Ms Mhlari is currently the Executive Director – Tax, Accounting and Advisory Services at PSTM Chartered Accountants, a firm owned and managed by three black females. She is also the External Audit Director at the same firm.

Prior to this, Ms Mhlari was a Financial Planner at ABI, SABMiller and previously Audit Supervisor at KPMG, where she completed her articles. She has served in the Audit and Risk Chairperson and Non-Executive Director of the Community Schemes Ombud Service as well as Audit and Risk Chairperson and Non-Executive Director of Great North Transport Company. She is currently an Audit Committee Member of Bankseta.

She holds Higher Diploma: Tax Law, CA (SA) 2008, B.Com Accounting Honours from the University of KwaZulu-Natal and B.Com Financial Accounting (Cum Laude) from the University of Pretoria.

NON-EXECUTIVE DIRECTOR

Ambassador TJ Ndhlovu

Ambassador Ndhlovu is the former SA High Commissioner to Ghana and is currently South Africa's Deputy Permanent representative at the United Nations in New York.

She obtained a Bachelor of Arts degree in Political Science from the University of Missouri. She later completed a degree in Public Administration at the University of Missouri-Columbia and a Master of Arts in Counselling Psychology at New York University. She also completed an Executive Leadership Training Programme at Arthur D. Little School of Management and a Middle Management Course at Georgia Institute of Technology, both in the USA.

Ambassador Ndhlovu joined the Observer Mission of the ANC to the United Nations in 1987 until her departure from the USA in 1994. Upon her return, she served on the management team of the newly set-up Independent Electoral Commission (IEC).

She was appointed Deputy Permanent Representative to the United Nations in 2000. She also served on the Bureau of the World Summit for Sustainable Development as an ex-officio member.

EXECUTIVE BOARD MEMBER AND CHIEF EXECUTIVE OFFICER

Mr KPE Wakeford

His academic qualifications include:

- BA
- BA Hons

Areas of expertise: Financial management and strategic management. His appointment is linked to his position as the Chief Executive Officer (CEO).

EXECUTIVE BOARD MEMBER AND CHIEF FINANCIAL OFFICER

Mr JG Grobler

His academic qualifications include:

- CA (SA)
- MBL
- MCom (Tax)

Areas of expertise: Financial management and corporate governance. His appointment is linked to his position as the CFO.

COMPANY SECRETARY

Ms FM Kumalo

Her academic qualifications include:

- MBA (GIBS)
- GradCSSA
- BCom

Areas of expertise: Governance, Strategy and Human Resources.

1.9 EXECUTIVE MANAGEMENT

CHIEF EXECUTIVE OFFICER

Mr KPE Wakeford

His academic qualifications include:

- BA
- BA Hons

Areas of expertise: Financial management and strategic management.

CHIEF FINANCIAL OFFICER

Mr JG Grobler

His academic qualifications include:

- CA (SA)
- MBL
- MCom (Tax)

Areas of expertise: Financial management and corporate governance.

ACTING GROUP EXECUTIVE: ACQUISITION AND SUPPLY CHAIN

Mr JS Mkwanazi

His academic qualifications include:

- MBL
- Total Quality Management (TQM) Programme
- MSc (with specialisation in Project Management)

Areas of expertise: Strategic management, operations management, project management, quality management and acquisition.

GROUP EXECUTIVE: RESEARCH AND DEVELOPMENT

Professor NM Mkaza

His academic qualifications include:

- BSc (Education)
- BSc (Hons)
- MSc (Materials Science)
- Post Graduate Diploma in Electrical Engineering
- PhD (Nuclear Physics)
- MBA

Areas of expertise: Coaching, emotional intelligence, strategic leadership and management and management in the science and technology environment.

GROUP EXECUTIVE: BUSINESS ASSURANCE

Adv. NB Senne

His academic qualifications include:

- BJuris
- LLB
- Bar Exam (Society of Advocates)

Areas of expertise: Governance, legal and strategy.

GROUP EXECUTIVE: BUSINESS ENABLEMENT

Ms JL Mzili

Her academic qualifications include:

- BCom (Hons) Business Management
- BCom
- MBA
- Certificate in Strategic Management
- Certificate in Financial Performance Measurement and Control

Areas of expertise: Strategic management, strategic marketing, business development and financial management.

GROUP EXECUTIVE: CORPORATE SUPPORT

Adv. SP Mbada

His academic qualifications include:

- BJuris
- BA Hons
- MAP
- LLB
- LLM

Areas of expertise: Strategic management, HR management, IR management and training management.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ARMSCOR
Armaments Corporation of South Africa SOC Ltd

50 YEARS
Towards a Sustainable Future

2 PERFORMANCE INFORMATION

2.1 PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Performance against goals

Operational objectives for the 2017/18 financial year

Armscor's three-year integrated Corporate and Business Plan defines two categories of performance indicators. The first category addresses performance indicators that measure the execution of Armscor's functions as defined in the Armscor Act and as agreed on in the SLA with the DOD. The second category measures the attainment of the strategic objectives of the organisation.

Performance Against Goals

In addition to the above categories Armscor uses an overall efficiency measure, which is the cost of acquisition. This measure reflects the ratio of operating cost incurred versus the acquisition cash flow during the reporting period, based on the total forecasted acquisition activities (revised baseline). A cost of 7,92% was budgeted for during the 2017/18 financial year, taking into consideration the baseline for contracting and the agreed performance requirement to commit 95% thereof, while contractual payments should be 95% of the committed amount.

Acquisition cost:	2017/18	2016/17
Acquisition cost based on calculated cash flow (budgeted):	7,92%	7,18%
Acquisition cost based on actual cash flow:	13,52%	10,68%

Note: *Budgeted figure, which was a result of lower actual expenditure due to reasons as stated in the performance measurements while R417,6m of requirement included in the baseline were not received from the DOD.*

The actual operating expenditure of R887,7m furthermore represents a 3,89% decrease from the budgeted operating expenditure of R923,6m, which is mainly due to the saving on external services and personnel costs.

Performance against the SLA objectives is as follows (as per approved Corporate Plan):

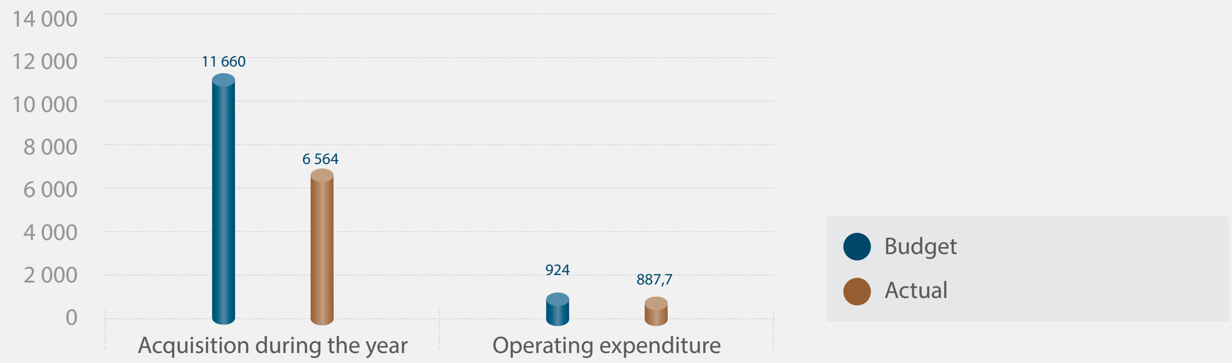

Figure 2: Performance against goals

Goal 1: Category 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition

The objectives are defined as follows:

- **Contracts to be placed by Armscor**
  Armscor's target of 95% of commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.

- **Cash-flow (contractual payments made)**
  Armscor's target of 95% cash-flow would be measured against the formally planned cash-flow in terms of achieved commitments for the financial year.

Goal 2: System support: Acquisition and procurement

The objectives are defined as follows:

- **Contracts to be placed by Armscor**
  Armscor's target of 95% of commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.

- **Cash-flow (contractual payments made)**
  Armscor's target of 95% cash-flow would be measured against the formally planned cash-flow in terms of achieved commitments for the financial year.

Goal 3 – Placement schedule

Target set to measure the average time taken from receipt of requirement to placement of contract.

Goal 4 – Management of Defence Industrial Participation

Target set to measure the execution of Defence Industrial Participation (DIP) obligations in terms of the SLA and in compliance with the Armscor Act.

Goal 5 – Management and execution of defence technology, research, test and evaluation requirements of the DOD

The target of Armscor Defence Institutes is set to achieve 95% completion of contractual milestones/deliveries as per orders received.

Goal 6 – Performance against mandate (SA Navy – Dockyard performance management agreement)

The target set to measure the performance of the Dockyard and more specifically the services rendered to the SA Navy Fleet Command.

Goal 1: Category 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition

Objective description (Projects)	Annual target 2017/18	Achievement against target	Achievement against target
1.1 Percentage of DOD capital requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Initiation of sourcing solution. • Approval and placement of order. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.)	95%	99,99%	DOD requirements to the value of R1 873 537 211.44 were received. Armscor committed R1 873 514 929.24 of the above mentioned funds resulting in an achievement of 99,99%. **Objective exceeded.**
1.2 Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armscor's control.)	95%	99,50%	The planned cash flow for the first revision was R6 317 507 531.22. Armscor managed to realise cash flow to the value of R3 623 395 630.78 resulting in an achievement of 57,35%. Authorised adjustments for factors beyond Armscor's control amounted to R2 675 996 381.00. This result in a final achievement of 99,50%. **Objective exceeded.**

Goal 2: System support: Acquisition and procurement

Objective description (Operational funds)	Annual target 2017/18	Achievement against target	Performance against objective
2.1 Percentage of DOD system support and procurement requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Initiation of sourcing solution. • Approval and placement of order. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.)	95%	99,49%	DOD requirements to the value of R941 772 860.73 were received. Armscor committed R936 985 470.96 of the above mentioned funds resulting in an achievement of 99,49%. **Objective exceeded.**

Objective description (Operational funds)	Annual target 2017/18	Achievement against target	Performance against objective
2.2 Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armscor's control.)	95%	98,71%	The planned cash flow for the first revision was R3 471 179 185.43. Armscor managed to realise cash flow to the value of R2 919 464 387.94 resulting in an achievement of 84,11%. Authorised adjustments for factors beyond Armscor's control amounted to R513 445 926.00. This result in a final achievement of 98,71%. **Objective exceeded.**

Goal 3: Schedule placement

Objective description	Annual target 2017/18	Achievement against target	Performance against objective
3.1 Average time taken to convert DOD requirements into orders including: • Confirmation of requirement. • Completion of sourcing process. • Approval and placement of order. (Time taken from registration of requirement (3A) to placement of contract.)	60 days for shortened process commercial-off-the-shelf (COTS) items.	114 days	An average of 114 days taken from receipt of obligation to placement of contract. **Objective not achieved.**
	90 days for non-COTS and Product Support GDA procurement.	101 days	An average of 101 days taken from receipt of obligation to placement of contract. **Objective not achieved.**
	270 days for SDA acquisition programs.	128 days	An average of 128 days taken for SDA acquisition programs from receipt of obligation to placement of contract. Capital Projects: 154 days Technology: 100 days Uncategorised: 73 days **Objective exceeded.**

Goal 4: Management of Defence Industrial Participation

A certain percentage of counter-performance is negotiated by Armscor with overseas suppliers on all contracts in excess of USD 2m. The management of these counter-performances is included as an objective for Armscor, and the target is reflected in the following table:

Objective description	Annual target 2017/18	Achievement against target	Performance against objective
4.1 Value of DIP credits to be granted to overseas suppliers.	Credits to be approved by 2018-03-31 for active portfolio		The projected value of R235,6m of credits to be granted during the 2017/18 financial year was based on forecasts in business plans of obligors.
Active Portfolio:	R235,6m	R157,0m	Although the execution of DIP obligations is continuously managed, there were factors beyond the control of Armscor that contributed to the original forecast not being met. Examples of these are: • Delays in Hoefyster Project (Denel) prevented the Obligor (Patria) from executing planned DIP activities. • Expected export sales by Obligor (Harder GmbH) did not realise. • Delays in A-Darter project (Denel) resulted in reduced DIP credits. • Project delays resulted in delays in DIP execution by Thales (UK). A revised DIP agreement and schedule was approved by the BOD in May 2017. A submission whereby the difference was motivated was approved by EXCO on 10 August 2017 and noted by the Board of Directors on 25 August 2017. Due to these delays beyond Armscor's control, the projected target of R235 601 215 for the 2017/18 financial year would not be achieved and it was estimated that credits of only R154 561 595 could be achieved under the Active Portfolio. DIP credits to the value of R157 038 470 have been awarded during the 2017/18 financial year, a performance of 101,6% against the revised target (66,6% against the original target). **Objective partially achieved.**

Goal 5: Management and execution of Defence Technology, Research, Test and Evaluation requirements of the Department of Defence

Objective description	Annual target 2017/18	Achievement against target	Performance against objective
5.1 Percentage of execution of technology requirements. (Armscor Research & Development to achieve contractual milestones/ deliveries as per agreed Memoranda of Agreement and orders received for the financial year.)	95%	97,17%	DOD orders received to the value of R296 389 028. Amount invoiced: R288 012 145. **Objective exceeded.**

Goal 6: Management and performance against Dockyard Mandate (SA Navy/Dockyard Performance Management in terms of SLA with the SA Navy Agreement)

Objective description (Projects)	Annual target 2017/18	Achievement against target	Performance against objective
6.1 Percentage of contractual milestones executed. (Ensure adherence to Project contractual milestone planned dates as approved in project plan.)	90%	93,60%	Measurement is for projects taken on by the Dockyard in accordance with available resources and under full Dockyard management control. All projects signed off by the SA Navy. **Objective exceeded.**
6.1.1 SAS PROTEA Docking Essential Defencts (DED)	90%	98%	**SAS PROTEA (DED)** Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 98% performance against a target of 90%. **Objective exceeded.**
6.1.2 SAS UMHLOTI (DED)	90%	95%	**SAS UMHLOTI (DED)** Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 95% performance against a target of 90%. **Objective exceeded.**
6.1.3 TUG UMALUSI (DED)	90%	90%	**TUG UMALUSI (DED)** Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 90% performance against a target of 90%. **Objective achieved.**
6.1.4 SAS MENDI (DED)	90%	95%	**SAS MENDI (DED)** Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 95% performance against a target of 90%. **Objective exceeded.**
6.1.5 TUG INDLOVU (REFIT)	90%	90%	**TUG INDLOVU (REFIT)** Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 90% performance against a target of 90%. **Objective achieved.**

Objective description (Projects)	Annual target 2017/18	Achievement against target	Performance against objective
6.2 Percentage of compliance to project finance. Manage project finances in accordance within approved financial authorities and cash-flow plan.	90%	94,84%	Financial authorities were committed within 60 days. Cash flow of 94,84% achieved and signed off by the SA Navy. **Objective exceeded.**
6.3 Percentage of Ancillary Services executed. (Provision of Ancillary Services as defined by SA Navy (power generation station, air supply, water supply, carnage support requirements, etc.) as per Dockyard funded business plan.)	95%	100%	Ancillary Services as requested by SA Navy were delivered and signed off by the SA Navy. **Objective exceeded.**
6.4 Percentage of training requests executed. (Training provided in accordance with the plan and requirements submitted by the SA Navy during the reporting period.)	90%	100%	Training requirements requested by the SA Navy were provided and signed off by the SA Navy. **Objective exceeded.**
6.5 Percentage compliance with quarterly report timelines. (Supply quarterly reports to Fleet Officer Flag that addresses inter-alia project performance status, financial statements, risks with mitigating plans, capabilities, facilities and ancillary services status reporting as per reporting timeline schedule.)	90%	100%	All quarterly reports submitted to Flag Officer Fleet on or prior to delivery date and signed off by the SA Navy. **Objective exceeded.**

Performance against Group Corporate Objectives

Progress/compliance with the approved Corporate Group objectives are stated below.

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		Annual target 2017/18	Achievement against target	Performance against objective
1.1	**Financing of Armscor:**			
1.1.1	Improve net financial position of group. (Based on assumption Armscor Dockyard is transferred by end of FY2016/17.)	5%	106,5%	Total deficit budgeted for R25 470 736 - actual surplus of R1 656 007. **Objective exceeded.**
1.1.2	Increase income, including commercial income from the existing facilities of Armscor R&D (baseline was based on the planned figure for FY2015/16).	5% (R133 189 702) (Baseline for 2017/18 is based on planned figure of 2016/17)	37,63%	Total commercial income received was R183 302 933 against a target of R148 173 369. **Objective exceeded.**

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
1.2.	**Generate additional income:**			
1.2.1	Earn a fee based income from brokering deals: • Business from providing service to other countries and government departments.	R34m	R23,8m	Additional income was as follows: Business Enablement: R21 509 048 Quality Department: R2 374 982 Total: R23 884 030 **Objective not achieved.**
1.3.	**New business initiatives:**			
1.3.1	Finalisation of principle/ funding options for sweating DOD assets.	31 March 2018	New target date to be determined.	Facility Management Strategic Work Session with the DOD was held on 22 - 26 January 2018 with the objective to develop a strategy for the short, medium and long term. The following facilities were identified as priorities for the project: • Residential Accommodation (Junior NCO's to Warrant Officers) • Centres of Excellence • Office Accommodation (Services/ Divisional Headquarters) DOD developing a Facility Management Strategy, which will guide the asset sweating process. Armscor could not finalise principles/ funding options as no assets were released for sweating. **No opportunity to perform.**
1.3.2	Implementation of new organisational structure.	30 September 2017	31 May 2017	The new structure was approved by the BOD on 31 May 2017 for implementation with immediate effect. **Objective exceeded.**
1.3.3	Develop and reposition personnel as necessary in line with the new structure.	30 September 2017	1 July 2017	The level 1 structure reporting to the CEO were effective from 1 July 2017. The process to identify a provider for the Skills Audit identifies the gaps in the various skills and competencies required to implement the new strategic direction of the organisation has been completed. **Objective exceeded.**

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
1.4.	**Intellectual Property (IP) related technologies:**			
1.4.1	Process 80% of all IP requests received.	80%	80%	Received 5 requests and 4 was completed. 1 request was received on 17 December 2017 and is still in process. 1. SigmaHat (CTEX, Brazil and CSIR): Board of Directors approval obtained on 16 March 2018. Armscor process is complete. 2. Sewes (XEERI 206 [China] and CSIR): Board of Directors approval obtained on 16 March 2018. Armscor process is complete. 3. CMore (Awareco [start-up by inventors] and CSIR): Exploitation request was put on hold due to negotiations that delayed the process. The negotiations were then concluded and the EXCO submission was prepared. Subsequently, the CSIR rescinded its EXCO approval of the request and indicated, telephonically, that they are withdrawing the request and will pursue this in the New Year again. The matter is closed for the 2017/18 financial year. 4. FORT IP (Reutech Radar Systems [RSS] and Ultra): The request was only received on 7 December 2017. Negotiations were concluded recently. Preparation of the request for EXCO's consideration in process. Matter still in process. 5. SAD Software – Meerkat (CSIR and SANParks): The request was received on 25 January 2018. The request was for royalty free exploitation. The "royalty free exploitation" request was declined and Armscor proposed 10% royalty fee on the contract value. CSIR subsequently informed Armscor telephonically that the request was withdrawn. The matter is closed for the 2017/18 financial year. **Objective achieved.**
1.4.2	Maintain a complete and comprehensive IP Register, which ensures the maintenance of an unqualified audit opinion in respect of Intangible Capital Assets under Armscor's management.	31 March 2018	31 March 2018	Complete and comprehensive IP register maintained. **Objective achieved.**

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		Annual target 2017/18	Achievement against target	Performance against objective
1.4.3	Maintain approved IP Royalties Management and Disbursement System. Provide annual royalty report.	31 March 2018	31 March 2018	Royalties Management and Disbursement System was maintained. **Objective achieved.**
1.5.	**Business Development Unit:**			
1.5.1	Sustainability Unit (previously Business Development). • Establish a Sustainability Unit in line with the Corporate Strategy.	30 June 2017	31 May 2017	A Sustainability Unit (detailed organisational structure and job descriptions) was defined and signed off on 20 April 2017 by Armscor's Turnaround Executive. The structure was approved by the BOD on 31 May 2017. **Objective exceeded.**
1.6.	**Human Resource re-alignment, culture and structure change:**			
1.6.1	Ensure skills attraction, development and retention in relation to capabilities required for effective operations in Armscor. Grow human capability in line with business growth opportunities and demand: • Business Sustainability Skills: Reskill and repositioning within Armscor to provide a business development service.	30 September 2017	30 September 2017	Employees appointed in the new structure are fairly qualified and skilled to run with their role; however, all have been further equipped with necessary soft skills. A development plan was also approved to be implemented in following financial years. **Objective achieved.**
1.6.2	Change Management: Adjust the Armscor culture towards a business culture.	30 September 2017	30 September 2017	The Change Management activities executed included coaching of top management of which some was completed by 30 September 2017. The programme continued until March 2018. **Objective achieved.**
1.7.	**Transformation of the organisation:**			
1.7.1	Achievement of approved Equity Plan that is directed towards: • Increasing race representation.	70% black employees	80% black employees	**Achieved:** 1 315 employees out of 1 641 employees are black. **Objective exceeded.**

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		Annual target 2017/18	Achievement against target	Performance against objective
	• Improving gender composition.	37% female employees	36,34% female employees	**Achieved**: 596 employees out of 1 641 employees are female. Due to appointments of predominantly male artisans at Dockyard (141 appointments of which 109 were male and 32 female), which were a legal requirement and not planned for, the objective was not achieved. Excluding Dockyard's figures in this objective would result in and achievement of 43,91%. **No opportunity to perform.**
1.7.2	Controllable staff turnover in technical positions, excluding retirements.	<4,5% 31 March 2018	2,37%	There were 15 (out of 633, technical positions) resignations for the year: AS Level – 4 STS level -2 MP level -7 SU level - 2 **Objective exceeded.**
1.7.3	Skills Development Programme.			
	• Provision of bursaries for full-time studies (numbers).	33 students	36 students	The corporate target of 33 students was set and bursaries in 2017/18 for 36 were awarded: Bursaries were given for: ND Electrical Engineering: 1 ND Mechanical Engineering: 1 ND Chemical Engineering: 1 B-Tech Chemistry: 1 B-Tech Chemical Engineering: 3 B-Tech Mechanical Engineering: 1 BSc. Biological and Agricultural Science (Extended Programme); 1 BSc. Applied Physics & Maths:1 BSc. Chemistry: 1 BSc. Eng. Electrical: 4 BSc. Eng. Electrical & Electronics: 2 BSc. Eng. Electronics: 1 BSc. Eng. Mechanical: 2 BSc General: 1 BSc GIS & Computer Science: 1 BEng. Mechatronics: 1 BEng. Chemical: 2 BEng. Electronics: 1 BEng. Mechanical: 5 BEng. Aeronautical: 1 BSc. Hons. Biochemistry: 1 BSc. Hons. Computer Science: 1 MSc. Chemistry: 1 BIT Information Technology: 1 **Objective exceeded.**

<table>
<tr><th colspan="5">Strategic objective 1: Financial Turnaround and Business Re-orientation</th></tr>
<tr><th colspan="2">Objective description</th><th>Annual target 2017/18</th><th>Achievement against target</th><th>Performance against objective</th></tr>
<tr><td></td><td>• Appointment and development of Talent Development Programme employees (number of employees on programme).</td><td>40 employees</td><td>44 employees</td><td>44 talent development candidates went through the programme.

Objective exceeded.</td></tr>
<tr><td>1.7.4</td><td>Succession Planning.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>• Percentage compliance with Succession Planning (key identified positions).</td><td>80%</td><td>83,69%</td><td>83,69% compliance with the development plan as contracted with successors.

Objective exceeded.</td></tr>
<tr><td>1.7.5</td><td>Employee satisfaction measurement (FY2015/16 used as baseline for measurement: 68,71%).</td><td>1% improvement</td><td>0,74% decline</td><td>The target was an improvement of 1% on 68,71%. However, the results of the Employee Satisfaction Survey deteriorated from 68,71% in 2015/16 to 67,62% in 2016/17 and with a 0,35% improvement to 67,97% in 2017/18.

Objective not achieved.</td></tr>
<tr><td>1.8.</td><td>Infrastructure renewal:</td><td></td><td></td><td></td></tr>
<tr><td>1.8.1</td><td>Renew application systems to improve effectiveness and efficiency.

• Completion of implementation of Finance Model.</td><td>31 March 2018</td><td>31 March 2018</td><td>The target date for implementation of the Finance module was the 31st March 2018.

Most of the development work on Finance module was mainly on the Acquisition Purchases, which is reported to be at over 70% complete.

The following is the progress made with the development of the Finance module:

<table>
<tr><th colspan="2">Finance 1.8.1</th></tr>
<tr><th>Design and Build</th><th>Progress %</th></tr>
<tr><td>Acquisition Purchases</td><td>75%</td></tr>
<tr><td>Payments and Receipts</td><td>20%</td></tr>
<tr><td>Operational Purchases</td><td>0%</td></tr>
<tr><td>Register Suppliers</td><td>5%</td></tr>
<tr><td>Treasury</td><td>0%</td></tr>
<tr><td>Sales</td><td>0%</td></tr>
</table>

Objective not achieved.</td></tr>
</table>

<table>
<tr><th colspan="5">Strategic objective 1: Financial Turnaround and Business Re-orientation</th></tr>
<tr><th colspan="2">Objective description</th><th>Annual target 2017/18</th><th>Achievement against target</th><th>Performance against objective</th></tr>
<tr><td></td><td>• Development of HR Modules (Performance Management, Succession Planning and Employee Relations).</td><td>31 March 2018</td><td>31 March 2018</td><td>The development of all nine sub-modules for HR & Payroll module had only progressed to just over 50%.

The contractor had committed to complete the HR and Payroll module by the end of the financial year, 31 March 2018. However, this timeline was not met. The contractor indicated a number of reasons contributing to failure to meet the timelines. These included:

• Lack of capacity due to the resignation of three resources.
• Time was lost due to mistakes made in the Design and Build phase that resulted in the contractor having to redo some of the major tasks. These mistakes were repeated leading to even more time being lost.

The following is an indication of the progress made with the Design and Build of the HR and Payroll module:

<table>
<tr><th colspan="2">Human Resource and Payroll</th></tr>
<tr><th>Design and Build</th><th>Progress %</th></tr>
<tr><td>HR Operations</td><td>98%</td></tr>
<tr><td>Benefits</td><td>70%</td></tr>
<tr><td>Remunerations</td><td>80%</td></tr>
<tr><td>Recruitment</td><td>30%</td></tr>
<tr><td>Learning and Talent Development</td><td>30%</td></tr>
<tr><td>Employee Relations</td><td>40%</td></tr>
<tr><td>Performance Management</td><td>20%</td></tr>
<tr><td>Succession Planning</td><td>20%</td></tr>
<tr><td>Payroll</td><td>75%</td></tr>
</table>

Objective not achieved.</td></tr>
<tr><td>1.8.2</td><td>Improve Information Security.

• Develop Security Architecture.</td><td>31 March 2018</td><td>20 March 2018</td><td>Security Architecture Framework was approved by EXCO on 20 March 2018.

Objective exceeded.</td></tr>
<tr><td>1.8.3</td><td>Investigate and implement e-procurement for identified Commercial and Military off the Shelf procurement.</td><td>31 March 2018 Implementation of selected e-procurement process.</td><td>New target date: March 2020</td><td>This solution has a dependency on the SCM module and its target date has been moved to March 2020 as the base SCM module will only be delivered by March 2019.

No opportunity to perform.</td></tr>
</table>

Strategic objective 1: Financial Turnaround and Business Re-orientation				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
1.9	**Enterprise Project Management Office.**			
1.9.1	Establish an Enterprise Project Management Office (EPMO).	31 March 2018	31 May 2017	The EPMO structure was approved on 31 May 2017 by the Board of Directors. The Senior Manager: Organisation Transformation (EPMO) was appointed on 1 July 2017. **Objective exceeded.**

Strategic objective 2: Acquisition excellence				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
2.1	**Defence Industrial Participation.**			
2.1.1	Value of DIP credits approved, aligned with revised DIP Policy prescripts.	R235 601 215	R157 038 470	The projected value of R235 601 215 of credits to be granted during the 2017/18 financial year was based on forecasts in business plans of obligors. Although the execution of DIP obligations is continuously managed, there were factors beyond the control of Armscor that contributed to the original forecast not being met. Examples of these are: • Delays in Hoefyster Project (Denel) prevented the Obligor (Patria) from executing planned DIP activities. • Expected export sales by Obligor (Harder GmbH did not realise). • Delays in A-Darter project (Denel) resulted in reduced DIP credits. • Project delays resulted in delays in DIP execution by Thales (UK). A revised DIP agreement and schedule was approved by the Board of Directors in May 2017. A submission whereby the difference was motivated was approved by EXCO on 10 August 2017 and noted by the Board of Directors on 25 August 2017. Due to these delays beyond Armscor's control, the projected target of R235 601 215 for the 2017/18 financial year would not be achieved and it was estimated that credits of only R154 561 595 would be achieved under the Active Portfolio. DIP credits to the value of R157 038 470 have been awarded during the 2017/18 financial year, a performance of 101,6% against the revised target. (66,6% against the original target). **Objective partially achieved.**

Strategic objective 2: Acquisition excellence				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
Note 1: • The annual forecast is an aggregate value of DIP credits that Armscor envisages to grant to individual DIP Programmes (Obligor) in a particular year. • Each DIP Programme has its own Business Plan with at least 14 milestones spread over seven years. These are six monthly milestones, i.e. there are only two milestones in a particular financial year. • The value of these individual milestones vary widely and are dependent on how an Obligor envisages to discharge its DIP obligation. The rand value of the milestones varies from a few thousand rand to several millions. • The deviation in the annual forecasts is thus influenced by planning at DIP Programme level. • For example: individual Obligors have planned to discharge a relatively large percentage of their DIP obligation in the financial years, 2016/17 and 2017/18.				
2.2	**Through Life Capability Management**			
2.2.1	Engage with the DOD to influence better alignment of capital projects.	Finalisation of Through Life Capability Management (TLCM) based acquisition policy.	DOD to determine new time scales – Project on hold.	This objective relates to achieving a better alignment of Capital Projects to ensure that complete capabilities are acquired rather than executing individual projects that deliver systems that are dependent on other out of phase projects to deliver systems that are required before a complete capability can be put into operation. This objective will be achieved as an output of the TLCM project being executed by the DOD with inputs from Armscor. The intention was to develop the first iteration of an optimised capital acquisition master plan, and to finalise the TLCM-based acquisition policy during the current financial year. The DOD; however, placed a hold on the project. Since the TLCM project is a DOD responsibility, further guidance is awaited from the DOD with respect to the restarting of the project, after which new timescales for completion will be determined. **No opportunity to perform.**

Strategic objective 3: Technology advancement				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
3.1	**Technology Management, Development and Test Services.**			
3.1.1	Development and Test Services: • Percentage compliance with Technology Development Master Plan in accordance with SLA between Armscor and the DOD.	90%	98,81%	**Orders placed:** Budget: R774 503 368.95 Orders placed: R765 307 487.93 (98,81%). Cash flow performance: Cash flow performance against orders placed taking into consideration factors beyond Armscor's control amounts to R584 716 786.69. This results in a final cash flow achievement of 71,69%. **Objective exceeded.**

Strategic objective 4: Industry sustainability				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
4.1	**Support the development of Local Industry and Industry Transformation.**			
4.1.1	Development of a Defence Sector Charter for approval and implementation.	30 September 2017	No control over process.	The adopted Defence Sector Charter was approved by the Minister of Defence and Military Veterans on 30 March 2017 and submitted to the Minister of Trade and Industry on 31 March 2017. The Defence Sector Charter was gazetted on 4 August 2017 by the Minister of Trade and Industry for public comments for a period of 60 days. Stakeholders within the defence industry submitted comments/inputs and were analysed by the Steering Committee and incorporated into the Defence Charter to the extent necessary. An updated Charter has been submitted to the Defence Sector Charter Steering Committee Chairperson for submission to the Minister of Defence and Military Veterans for approval, and thereafter to the Minister of Trade and Industry for further approval and gazetting. Armscor had no control over the process due to external dependencies. **No opportunity to perform.**
	Support Industry on development of SMMEs by reviewing RFO and Conditions of Contracts to include ESD requirement as prescribed in the Defence Sector Charter.	31 October 2017	Ongoing	The RFOs were reviewed to include ESD where applicable. Implementation of ESD requirement has been effected although the Charter has not been gazetted yet. However, implementation will be strengthened with the promulgation of the Defence Sector Charter. The following suppliers included an ESD clause: • Projects Biro committed R240m (13 December 2017) • Project Hotel committed R1,6m (28 November 2017) • SAAB Grintek committed R11,5m (31 October 2017) • Project Swatch committed R43m (28 November 2017). There was also an order of R20m placed directly with Mochochonono (Pty) Ltd on 13 December 2017, an ESD beneficiary and Military Veteran owned company. **Objective achieved.**

Strategic objective 4: Industry sustainability				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
	Monitor and issue quarterly reports against targets on procurement spend on ESD Beneficiaries (SMMEs).	31 March 2018	31 March 2018	Four reports were issued on procurement spend including spending on ESD beneficiaries. **Objective achieved.**
4.2	**Military Veterans Support.**			
4.2.1	Submit application for set asides for Military Veterans with National Treasury.	31 March 2018	No longer required.	Due to the change of legal requirements (as the Preferential Procurement Regulations gazetted in January 2017 provide for Military Veterans) this objective is not pursued anymore. **No opportunity to perform.**

Strategic objective 5: Stakeholder engagement				
Objective description		**Annual target 2017/18**	**Achievement against target**	**Performance against objective**
5.1	**Stakeholder Engagement Strategy.**			
5.1.1	Review and implement Stakeholder Engagement Strategy.	31 March 2018	22 February 2018	The Stakeholder Engagement Strategy was approved by EXCO on 22 February 2018. **Objective exceeded.**
5.2	**Marketing Support to Defence Industry.**			
5.2.1	Shows and Exhibitions. • Facilitation of industry participation at international shows (three National Pavilion shows) and exhibitions as approved by the Board.	31 March 2018	9 November 2017	The total number of shows and exhibitions approved by the Board was 12; three national pavillions, and nine individual pavilions. The following are national pavilions, which Armscor participated in: a. **LAAD 2017** (4 - 7 April 2017). b. **IDEF 2017** (9 - 12 May 2017) - converted to independent pavilion. c. **DSEI 2017** (12 - 15 Sept 2017). In addition, Armscor participated and facilitated industry participation on the following individual pavilions: • **Land Forces West Africa**: Abuja, Nigerian from 26 - 27 September 2017. • **African Air Show and Conference 2017**: 24 - 25 October 2017 in Accra, Ghana. • **Defence & Security Thailand 2017**: (6 - 9 November 2017). • **DEFEXPO** India, planned for February, however took place in April 2018. • Army International Military exhibition – Technical Forum (Army 2017) on 22 - 27 August 2017 in Moscow.

Strategic objective 5: Stakeholder engagement				
Objective description		Annual target 2017/18	Achievement against target	Performance against objective
				Due to level of interest by the industry and financial constraints, Armscor did not participate at: • **Expo Aero Brazil** in May 2017. • **Aviation Expo China** in September 2017. • **Dubai Air Show** in November 2017. • **INDESEC India** in December 2017. • **MAKS** and/or **Interpolitex 2017** in Russia. **Objective exceeded.**
5.2.2	Marketing of Research and Development facilities through the Military Attaché and Advisor Corps (MAAC) sessions and touring at least three R&D facilities.	31 March 2018	16 November 2017	Armscor hosted MAAC on 16 November 2017 at its Technopark facility; covering Protechnik, Hazmat and Ergotech capabilities. **Objective exceeded.**

2.2 OPERATIONAL REVIEW

2.2.1 Acquisition

The core function of Armscor is to acquire defence matériel and related services, primarily for the SANDF but also for other government departments and services, with permission from the Minister of Defence.

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for matériel, facilities or services intended for use in meeting or in support of client requirements. This includes requirements analysis, technology development, design and development of products and product systems, the industrialisation and manufacturing of mature products and product systems that fully meet the stated user requirements. It also entails procurement of already existing and qualified products, as well as the acquisition of product system support for user systems during the operational lifetime of the systems.

The acquisition responsibility of Armscor can be broadly classified into two main categories being capital acquisition (funded by the Special Defence Account), which entails projects that cater for technology development, directed systems development and the subsequent production of new defence matériel, and operating procurement, and maintenance and support of existing equipment and systems (funded by the General Defence Account).

Capital equipment acquisition entails projects or programmes that are aimed at the development and production of complex systems that meet the stated capability requirements of the SANDF. During the execution of these development projects a formal risk-reduction process is followed, which eventually leads to the contracting of suitable suppliers to develop, industrialise and manufacture the products or product systems. The acquisition process concludes with the delivery of mature, fully qualified and supportable products or products systems to the SANDF.

Status of Acquisition Objectives

During 2013 a process was undertaken to redesign the suite of acquisition governance documentation to improve the manner in which acquisition was performed, more specifically relating to contract, project, business and engineering management. The fundamental reasons advanced to redesign the suite of acquisition governance documentation were to better align acquisition practices with industry standards, more specifically the standards for life cycle, engineering and project management, i.e.:

- ISO 15288 – System life cycle processes,
- PMBOK – Project Management Body of Knowledge, and
- INCOSE Systems Engineering Handbook.

During 2014, a complete review of the Acquisition governance documentation was undertaken, which resulted in a single Acquisition practice that covered the full system life cycle process. In an endeavour to further improve the acquisition business towards the Acquisition Excellence Corporate Initiative, a comprehensive review process began in late 2016 to assess the appropriateness of the 2014 acquisition management documentation construct. With the benefits of lessons learnt since 2014, the evolution of the adopted International Best Practices, it was deemed appropriate to reconstruct the suite of acquisition management documents. Based on this planned reconstruct, a suite of new and updated documents was developed and promulgated in the Acquisition environment, and some practices and documents were amalgamated with others to improve coherence. The updated and new documents promulgated during the review period are amongst others, updated Acquisition and Project review practices, updated procedure for User Requirement Reviews, new Standard for Technical Baseline Items, and a new Handbook on Technical Reviews and Audits. This suite of new guideline documents will serve to better align the acquisition processes with the latest international definitions and bring about changes to the capital project process model to re-align technical reviews and audits with international best practice.

In accordance with the corporate objectives of Armscor, significant effort was expended on providing inputs and participating with the DOD on the TLCM Project, aimed at influencing better alignment of capital projects. Unfortunately, the project was halted by the DOD, and the objective of finalising a TLCM-based acquisition policy was not achieved.

In accordance with the corporate restructuring and in keeping with national treasury guidelines, good progress has been made with the formation of a dedicated SCM Department in Armscor. During the reporting period, the Procurement Secretariat, Internal Procurement functions and associated personnel were identified within the Acquisition for migration to the newly formed SCM Department. Effective from the beginning of the 2018/19 financial year, all procurement activities, both internal and for external clients will be centralised in the SCM Department.

Acquisition Financial Performance

An important objective of the Acquisition department remains the achievement of planned commitment and expenditure of DOD funds. Armscor's cash flow performance is measured against the joint Armscor/DOD cash flow planning that occurs during June of every year, adjusted with mutually-agreed deductions due to factors beyond Armscor's control. Factors beyond Armscor's control that inhibit realising planned cash flow would be factors such as requirements that are received too late in a financial year to allow industry to execute the full extent of work within the financial year, or where all planned funds are not spent as a result of improvements in the predicted rate of exchange.

A total amount of R3 189,46 million, which was planned during the first revision in June 2017 as cash flow for the 2017/18 financial year is regarded as not being achievable due to factors beyond Armscor's control and is supported by agreements from the DOD. Taking this reduction of the planned cash flow target into consideration, Armscor managed to achieve and exceed its targets for the year of 95% cash flow against the planned cash flow for both capital and operating funds by a significant margin. The graph below reflects the cash flow planned that has been adjusted by deducting commitments that could not achieve cash flow due to factors beyond Armscor's control versus actual cash flow achieved.

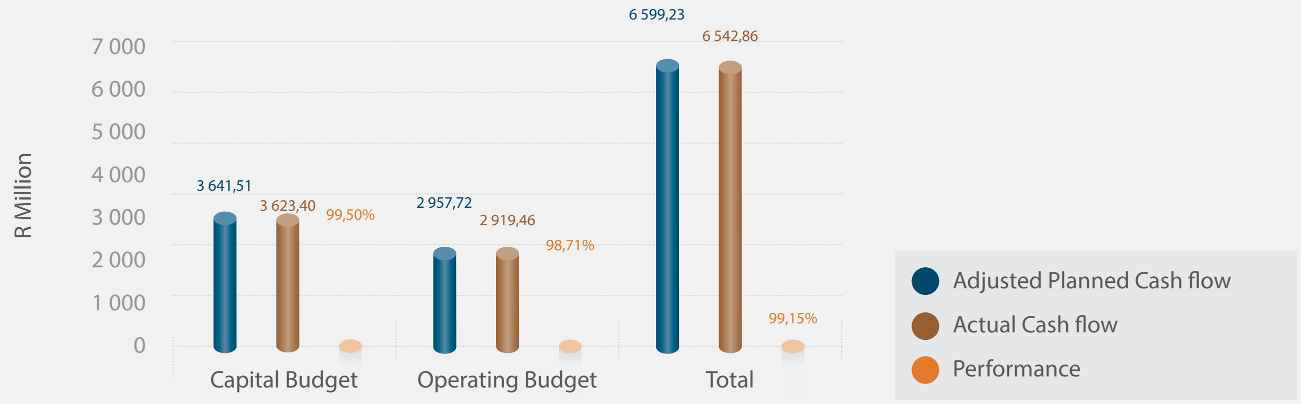

Figure 3: Actual vs Adjusted Planned Cash Flow for the 2017/18 Financial Year

Despite the challenges and to effect payments in the applicable financial year as well as the below standard performance of Denel on all programmes contracted to them, Armscor has managed to achieve cash flow in excess of 70% of adjusted ordered values for the past seven years. This annual trend is indicated in the graph below. The adjusted cash flow graph excludes the value of orders that could not affect cash flow due to factors beyond Armscor's control. Cash flow against adjusted ordered value was lower than the performance of the previous years, mainly as a result of the non-performance of Denel.

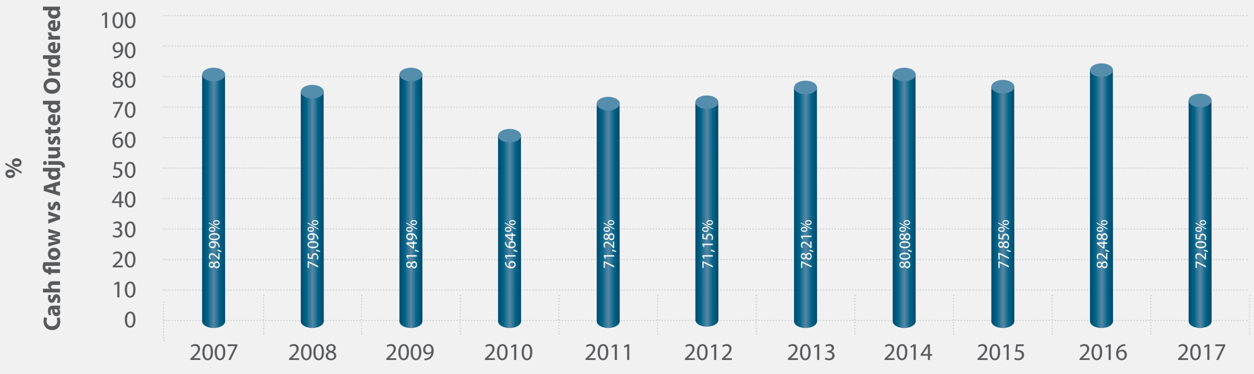

Figure 4: Cash flow as a percentage of adjusted ordered values per financial year for the past 10 years.

Acquisition Highlights

Maritime Systems

Hydrographic Capability

This programme entails the acquisition of a new hydrographic capability products system for the SA Navy to replace the ageing SAS Protea hydrographic survey vessel. The programme comprises the following:

- A hydrographic survey vessel, including two fully integrated inshore survey motor boats and one seaboat.
- A third fully operational inshore survey motor boat, kept ashore in reserve.
- Upgrading of the current shore-based hydrographic office infrastructure located at the Silvermine Military Complex in the Cape Peninsula.

The preferred bidder was contracted in November 2017 and the detailed design and logistic engineering activities are currently underway with the aim of commencing with actual construction later in 2018.

Multi-Mission Patrol Capability

This programme entails the acquisition of a new multi-mission patrol capability for the SA Navy, comprising three Multi-Mission Offshore Patrol Vessels (MMOPVs) and three Multi-Mission Inshore Patrol Vessels (MMIPVs).

The preferred supplier for the MMIPVs was contracted in December 2017 and the detailed design and logistic engineering activities have commenced. Subsequent to contracting the preferred suppliers, the infrastructure preparation commenced with the aim of commencement of construction of the first vessel towards the end of the 2018 calendar year.

The tender for the MMOPVs has been temporarily put on hold.

Midlife Upgrade of the SA Navy Frigates

The project is currently in the concept phase that commenced in February 2016. The focus has been to conduct functional studies, which will culminate in the Project Study Report. The major contracts are for both platform and combat suite studies to address obsolescence and upgrade requirements. The platform functional study has been completed while the majority of combat suite studies are nearing completion. The concept phase of the project is planned to be completed during the third quarter of the 2018/19 financial year. A decision will be made at a later stage regarding further development work that will be required during the programme.

Midlife Upgrade of the SA Navy Submarines

This programme relating to the midlife upgrade of the current submarines of the SA Navy is presently in the early phases of the acquisition process. Feasibility studies have been completed and a recommended approach has been defined for consideration by the SA Navy. The aim of the programmes is to combat obsolescence of the platforms through replacement of identified subsystems on the vessels to ensure future support. The project is expected to reach the contracting stage by 2020.

Airborne Systems

New Generation Short Range Air-to-Air Missile

This project entails the development of the A-Darter short range air-to-air missile system for the South African Air Force (SAAF) and is co-funded by the Brazilian Air Force.

The development phase of the missile is reaching completion and the last qualification test flights of the missile commenced in November 2017. Three qualification shots were planned to fully qualify the missile, but one of the shots missed the target. Subsequent to an analysis of the flight, it was decided to repeat the firing. This last missile test firing is scheduled for June 2018 and if successful, the development phase will be formally completed. Finalisation of the development of the missile is 26 months behind schedule as a result of various technical challenges during the very ambitious development phase.

A contract was placed with industry in March 2015 for the industrialisation and subsequent production of the A-Darter missiles for the SAAF. This programme has been significantly delayed, primarily as a result of the financial situation of Denel and also as a result of the delays in finalisation of the development phase of the missile. Delivery of the first batch of missiles and initial logistic support capability has been delayed from the contractual delivery date of September 2016 to an expected new date in May 2018.

The programme furthermore provided for the integration of the A-Darter missile on to the Hawk Mk120 Lead-In Fighter Trainer Aircraft of the SAAF. It was originally planned that BAE Systems (UK), the aircraft Original Engine Manufacturer (OEM), would assume prime responsibility for the integration of the missile on to the aircraft, but the approach was subsequently changed to allow for integration to be performed by South African entities. Prior to finalisation of this approach, the SAAF indicated that the requirement for the integration of the missile on to the Hawk aircraft has been cancelled. Formal cancellation of this requirement is still awaited.

Landward Systems

New-Generation Infantry Combat Vehicle

This project provides for a complete New Generation Infantry Combat Vehicle Products System to replace the Ratel Infantry Combat Vehicle, which has been in service since 1976. The project originally comprised five combat variants including their logistic support and ammunition, but four new variants were added with the approval of the Acquisition Plan by the Armaments Acquisition Council on 13 February 2013. The quantity of 238 combat vehicles was increased to 244 vehicles as a quid pro quo for an increase in the advance payments to the contractor. Contractually, 21 vehicle platforms are to be delivered by Patria from Finland, while the remaining vehicle platforms are to be produced locally by Denel Land Systems (DLS) and its subcontractors. The turrets and weapon systems are locally developed and manufactured by DLS as the prime contractor.

DLS has slipped on the completion of the development phase. The main contributors were the completion of the software development, the delays in the manufacture of the Fire Support, Missile and Mortar variant Engineering Development Models (final models of the development phase). These delays resulted in delays in the Industrialisation Phase, and at the end of the reporting period the entire programme had already been delayed by at least 32 months. Together with a number of technical challenges, the dire financial situation of Denel contributed significantly to the delays that have been experienced in the programme.

The first four Pre-Production Models (PPM) of the Section Variant turrets were completed in November 2017 and one of these turrets, together with a Patria PPM built vehicle platform commenced Firing Trials in February/March 2018.

The industrialisation and production programme amongst others provides for a transfer of technology from the OEM of the vehicle hull (Patria in Finland) to recipient companies in South Africa. The transfer of technology, which forms part of the DIP programme, is intended to allow for complete manufacture of the vehicles in the RSA. During the reporting period, the welding/painting of the South African Platform Hulls has been successfully industrialised and the first 15 Production Model Platform Hulls has been completed. Although the bulk of the technology transfer activities have been completed, the industrialisation of the first locally assembled vehicle platforms could not commence as planned due to the financial situation of Denel and delays in sourcing all the required subsystems and components from their suppliers.

In spite of continued efforts by Denel to catch up following delays incurred on the programme, it is anticipated that the planned delivery of the first battalion of the vehicles to the SA Army will be delayed by at least 17 months.

Ground Based Air Defence System for the SA Army

The first phase of the Ground Based Air Defence System (GBADS) programme, namely the Local Warning Segment, has been delivered to the SA Army Air Defence Artillery Formation and is operational.

Phase two of the GBADS programme comprises two steps. The first step entails the upgrade of the Gun Fire Control System of the 35mm anti-aircraft guns currently in service with the South African Army Air Defence Artillery Formation. This upgrade will provide a radar-guided semi-integrated gun fire capability to the 35mm guns, which will significantly enhance the operational capability of these assets. During the reporting period, a further two gun fire control posts, six radar carrier vehicles fitted with large capacity cranes, radar and spares for the upgraded 35mm guns were delivered. Further alignment of customer furnished carrier vehicles is required, as well as the completion of codification and delivery of spares for the gun fire control posts before the user engages in Final Operational Test and Evaluation planned for October 2018 at Alkantpan by trained members of the Air Defence Artillery Formation. It is anticipated that the fully functional and supportable system will be handed over to the Air Defence Artillery Formation of the SA Army by May 2019.

The second phase of the GBADS programme addresses the Battle Management, Command & Control, Communications, Computers and Information integration within the Mobile Air Defence System Regiment and to Higher Order User Systems. This phase of the programme is progressing well and remains on schedule.

Common Weapon Systems

New Generation Tactical Communication System

This project addresses the acquisition of a complete new generation tactical communication system for the SANDF. This system will make provision for all tactical communication requirements for all arms of service and will ensure interoperability between all users.

The communication system encompasses state-of-the-art transmission and information security techniques, whilst incorporating semi real-time data link performance characteristics and digital voice communication. Development of the various elements of this system has been completed, and will result in the first tactical communications system in the world that will provide complete interoperability between all elements of the battlefield (Air Force, Army, Navy, etc.) without making use of gateways or protocol.

Industrialisation of the four major sub-systems, High Frequency Radio system, the Very/Ultra High Frequency radio system, Intra Platfrom Communication System and the Short Range Communication has been successfully completed and all the major subsystems are currently in production. Development of the communication management system is nearing completion and the critical building blocks of the management system have been completed.

Defence Industrial Participation

DIP entails the obligation incurred by a foreign supplier to reciprocate defence related business in South Africa as a result of foreign defence acquisition, and forms an integral part of the DOD's policy framework for the retention and development of the South African Defence Industry.

Armscor is currently managing 14 existing active DIP agreements resulting from capital acquisition projects; a single obligation that stems from the Special Defence Packages (SDPs), and one DIP agreement resulting from the procurement of pistols on behalf of the South African Police Service.

The only remaining SDP related DIP obligation is an obligation incurred by MBDA for the acquisition of the Exocet surface-to-surface missile for deployment on the frigates of the SA Navy. Negotiations have started between Armscor and MBDA to investigate alternative projects involving local companies to discharge the outstanding obligation. The DIP agreement has been extended to March 2019 to provide an opportunity for Armscor and MBDA to identify suitable projects for the execution of the MBDA DIP obligation.

The DIP agreements for the projects relating to the procurement of Aviation Rescue and Fire Fighting Vehicles and the procurement of the Militarised Operation Earthmoving Systems were concluded on 15 and 19 September 2017 respectively.

Pro-active DIP credits, which are banked for future use by foreign companies, remain the largest indicator of benefit accruing to the Defence Industry. An updated DIP policy was approved on 28 October 2015 and amongst others, the mechanism to pro-actively bank DIP credits for future use was reinstated after it had been terminated in 2014. Foreign companies can thus again enter into pro-active DIP agreements with Armscor and on 14 November 2017, a new Pro-active DIP agreement was entered into with Diehl Defence GmbH & Co. KG.

The status of the four DIP portfolios at the end of the reporting period is summarised below:

The status of the four DIP Portfolios as at 31 March 2018 is as follows:

Portfolio	**Number of curent contracts**	**Number of completed contracts**	**Total obligation (Rm)**	**Credits passed during current financial year (Rm)**	**Credits passed during current financial year (Rm)**	**Credits passed during current financial year (Rm)**
SDPs	1	7	15 111	0	14 178	933
Active (SDA)	14	32	7 276	157	7 059	217
Police con-tracts	1	3	184	0	152	32
Total	**16**	**42**	**22 571**	**157**	**21 389**	**1 182**
Pro active	1	0	n/a	22	22	n/a
Historic Pro active*	7	42	n/a	-676	1 003	**n/a**

Note: The negative value under the Historic Pro-active Portfolio relates to transfer of pro-active credits to active agreements and credits expired since the termination of pro-active agreements.

Status of DIP obligations relating to the Strategic Defence Packages as at 31 March 2018:

Project	**Obligation Rm**	**Planned perfor-mance Rm**	**Actual perfor-mance Rm**	**Actual vs Planned %**	**Actual vs Obligation %**	**Sales (local and exports) Rm**	**Technolo-gy Transfer Rm**	**Invest-ments Rm**
Frigates	2 941	2 008	2 008	100	68	1 505	465	38

Note: Except for DIP obligations relating to the Frigates (MBDA), all other SDP related DIP obligations were fully discharged during previous reporting periods.

Supply Chain Management

SCM department was announced on 10 July 2017 under the acting leadership of an executive manager until a permanent placement was made on 13 November 2017. As a way of establishing and capacitating the department, the SCM strategy was developed and approved by EXCO on 31 October 2017.

The SCM department aims to offer an agile yet focused effective and efficient SCM function, while meeting the organisation's acquisition needs.

The identified functions of the department are:

- Demand Management
- Sourcing and Contract Management
- SCM Compliance and Performance Management
- Logistics and Disposal Management.

The objectives of the SCM department are:

- To enhance and facilitate the capacitation of the Armscor's SCM function to provide effective services to Armscor's functions by ensuring "on time" and "in time" service delivery. This approach will ultimately improve the quality of service delivery.
- To ensure effective execution of world-class procurement and SCM for Armscor on an ongoing basis.
- To direct and support the corporate wide SCM activities by working closely with the business units and end users in pursuit of sustainable reductions in the total goods and services, offer improvements in quality and service levels and ensure adherence to governance requirements.
- Facilitate the implementation of enterprise supplier development.

It was recommended that two types of supply chain streams be followed; one that will be for the DOD centric requirements and the other for "other client" requirements. The centre-led SCM function will follow a phased approach; where the traditional Procurement Secretariat function, with a number of personnel from the Acquisition Department and the Finance and Infrastructure will be populated in the department.

In line with the Turnaround Strategy, it was decided that the SCM function be centralised under one division. The road map was completed and the actual implementation has commenced. The function of the SCM department is in line with the objective to "meet the defence matériel requirements of defence effectively, efficiently and economically".

Armscor has developed a corporate plan over a three-year period, with key performance indicators and goals.

The following key performance indicators have relevance to SCM:

- Strategic defence acquisition
- Schedule placement

The division ensures the effectiveness and efficiency of the tender administration function by providing inputs on the answerability of the tender process. All the activities in the 2017/18 financial year, except the number of requests issued and number of offers received show a reduction in numbers when compared with the 2016/17 financial year.

2.2.2 Research and Development

The Research and Development (R&D) Business Unit manages the strategic capabilities and facilities under its control in line with Armscor's mandate. Services rendered by the department are defence operational and scientific research, test and evaluation, technology management, analysis and industrialisation and intellectual property management service.

Armscor is exploring the possibility of business partnering under the Turnaround Strategy to ensure the sustainability and effective management of these strategic and sovereign capabilities. Armscor R&D received 27% of the total business portfolio of R493,7m from commercial contracts and 73% from the DOD. The main contributing facilities for local and foreign commercial income were Alkantpan Test Range, Gerotek Test Facilities, and Hazmat Protective Systems.

Armscor continues to experience a challenge of insufficient funding to ensure the effective execution of its mandate. Commercial opportunities created through research and development activities are actively exploited to contribute to long-term financial sustainability.

The focus is on the following three functional areas:

1) Functional Area 1: Technology Management, Analysis and Innovation;
2) Functional Area 2: Test and Evaluation Services; and,
3) Functional Area 3: Operational and Scientific Research.

Technology Management, Analysis and Industrialisation, and Intellectual Property Management Divisions
These divisions perform an independent, centralised coordination and management role for technology acquisition, intellectual property management and technology commercialisation.

Technology Management, Analysis and Industrialisation Division
This division manages technology programmes in various areas to develop and maintain capabilities in South Africa, which would support the new and changing demands of the SANDF. The division performs an independent, centralised coordination and management role for technology acquisition.

Management of Technology Development Programmes
The strategic intent for technology development programmes in various technology areas is to develop and maintain relevant technologies and capabilities in South Africa, which will support the new and changing demands of the SANDF.

These programmes are conducted in South African Defence Industries, Defence Evaluation and Research Institutes, and at tertiary education institutions (Universities).

Management of Technology Development Programmes include:

Aerospace Technology	Provides the SAAF with scientific and engineering support services in the Aeronautics, Airborne Electronic Warfare and Guided Weapons domains, including development of an All Weather Air Defence Missile (AWADM) demonstrator and air platform self-protection demonstrators.
Landwards Technology	Provides the SA Army with scientific and engineering advice and technological solutions aimed at providing engineering knowledge to improve weapon systems in the domains of mobility, protection, firepower.
Maritime Technology	Provides the SA Navy with scientific and engineering support services as well as risk reduction work for the new patrol vessels. Research and development work is being conducted in the underwater communications, underwater warfare, and above-water warfare domains.
Electronics Technology	Provides ready technology base to provide scientific and engineering advice and technical solutions in radar, electronic warfare, optronics, communications, command and control and cyber domains.
Support Technology	Develops and maintains sustainable capability in chemical and biological defence as well as ergonomics and body armour as part of soldier support.
Technology-Based Special Programmes	DESUP and DEFTED

The technology funding of R775 million (including roll-overs and shuffles) for these programmes was distributed as follows:

- Armscor Research and Development Institutes – 11%

- CSIR – 21%
- South African Defence Industries – 59%
- Universities – 9%

Performance on some of the major technology programmes is highlighted below.

- The SA Navy operates conventional submarines and various surface vessels. These submarines and surface vessels operate different types of Sound Navigation and Ranging (SONAR) systems. The SONAR systems used on submarines are critical technological systems required for the safe navigation, as well as detection, classification and ultimately the destruction of targets. Under the maritime programme research and development, work is being conducted in the synthetic aperture SONAR technology demonstrator that is able to transmit real-time SONAR images using a broadband underwater data communication system. As a highlight of the last year, the concept of real time Broad Band Under-Water Communications was proven and demonstrated practically. Although only short ranges have been achieved so far, it is considered a breakthrough in this technology.
- The SANDF armoured vehicle's passive armour and existing protection measures of convoys, ships, airfields and helicopters will not be sufficient to counter future threats. Therefore, an Active Protection System (APS) is required to counter the future threats in both a soft kill (e.g. jamming) or hard kill (shooting down the threat). The APS technology demonstrator development project seeks to develop a hard kill solution to counter future threats such as mortars, artillery, RPG-7, anti-tank missiles, etc. The APS system being developed uses a missile to shoot down incoming threats. The highlight of the past year was the successful vertical launch flight test for the APS missile.
- The technology development objective for guided weapons is to develop an AWADM demonstrator to expand and prove the technology capabilities in areas such as radar seekers, missile navigation systems, fusing, warheads, flight control and propulsion systems, integrated through a sound systems engineering process. A highlight for the year was the first guided flight test of the AWADM demonstrator missile. This successful surface launched flight test of the Marlin missile demonstrated its ability to acquire, lock-on and track a maneuvering target drone in flight. This was also the first guided flight test ever with a locally developed radar guided missile.
- The strategic intent for the scientific research and capacity building programme is to create new scientific and engineering knowledge, which is non-sensitive but relevant to the military. The programme is implemented by funding South African students at the postgraduate, undergraduate and artisan levels. The programme was reviewed to ensure that it is better aligned to national objectives, SANDF requirements and the defence industry while being inclusive of all universities in the country. DESUP began its operation in the 2017/18 financial year. The programme is now more inclusive and focuses on creating a sustainable pipeline of scientists and engineers from all sectors of society. It caters for the entire value chain (from high school to postgraduate) with the sole objective of maintaining defence capabilities. The highlight for the year was the ergonomics capability establishment at the University of Fort Hare (UFH). A curriculum development was established to bridge the gap between the Human Movement Sciences degree being offered by UFH to the ergonomics requirements of the SANDF.
- DEFTED programme seeks to transform the defence industry and support SMMEs operating in the defence sector. The objective of the programme is to develop sustainable enterprises through human capital development, technology development and enterprise development. There are currently five SMMEs being supported in the programme in the radar and electronic warfare domains. The highlights for the past year include, inter alia, the successful migration of the DEFTED programme to Armscor. As a result of the migration, the management fee was reduced from R30m to R5m. The incubation strategy of the programme is more empowering for SMMEs as they are now being supported with equipment.

Intellectual Property Management Division

IP created or acquired during acquisition of defence matériel or technology development projects, on behalf of the DOD, is managed by R&D: Intellectual Property Management Division (IPMAD). It includes the following generic elements:

1) Identification of IP,
2) IP recordal and protection,
3) IP valuation,
4) IP contract management,
5) Legislative compliance with IP laws, and,

6) Direct and/or indirect exploitation of IP.

Strategic IP may be exploited with little consequence to the DOD. However, sovereign IP may only be exploited after due consideration is given to the sovereign sub-systems in the specific technology and commercial equivalents are created for the commercial market.

All IP is exploited with the support of Armscor's Executive Committee, Technology, Industry and Sustainability Support Committee, Armscor's Board of Directors, Defence Intelligence, and the user environment, and approved by the Secretary for Defence on behalf of the Minister of Defence and Military Veterans.

Two IP exploitation requests were approved by the Armscor's Board of Directors in the 2017/18 financial year. The said requests are yet to be approved by the DOD.

R&D through IPMAD is responsible for assisting the DOD in preparing a financial asset register for all intangible assets managed by Armscor in accordance with treasury's modified cash standard as a way of managing IP. The register is audited annually by the Auditor General. An unqualified audit for intangible capital assets relating to IP for 2016/17 was obtained by the DOD. This is the third time ever that the DOD has obtained the same results.

Armscor, through the R&D: IPMAD has been engaging with the SADI to negotiate legal framework agreements that, seek to protect sovereign IP that is in their custody and facilitate the participation of previously disadvantaged SMMEs. R&D: IPMAD negotiated the legal framework agreements with Saab Grintek Defence and GEW Technologies in the 2017/18 financial year and the agreements are in the process of being approved.

Test and Evaluation Facilities

Alkantpan Test Range

Alkantpan conducted various tests for defence industry clients, local and foreign, during the 2017/18 financial year. Some of the clients and tests are listed below:

1) Yearly surveillance tests were conducted for Singapore as well as certain development tests on the 120 mm and 155 mm ammunition systems.
2) Tests were conducted for Diehl in Germany and Leonardo in Italy varying from 127 mm naval ammunition to 155 mm guided ammunition tests.
3) Ammunition tests were conducted for Rheinmetall Waffe Munition (RWM).
4) DSO (Singapore) conducted Unmanned Aerial Vehicle (UAV) tests.
5) Successful tests, including UAV tests, were conducted for various South African clients.

There has been an expression of interest to have Alkantpan's aerodrome tarred and additional funding will be required. These include DLS, Denel Dynamics, Rheinmetall Denel Munitions, Fuchs Electronics, PMP and Armscor. Work was also done for BME, AEL and Transnet, which are not traditional clients.

The following milestones have been achieved during the reporting period:

1) Tracking by a single tracking radar (lower powered radar) up to 42 000 m.
2) Comparative tests with 76 mm ammunition for a possible weapon project.
3) Alkantpan Test Range was approached by an Australian test range to assist in developing a standard procedure for tracking mortars with a Weibel Tracking Radar. A procedure was drawn up to ensure that both test ranges use the same method. This will help RDM in qualifying ammunition that will be exported to Australia.
4) The 155 mm PzH 2000 weapon system was successfully mounted onto a stand to use for ammunition testing and therefore removing the usage of the entire vehicle with the weapon system. This system is used mainly by RWM in Germany and RDM in South Africa.
5) Diehl in Germany requested support from Alkantpan with the 76 mm Springkaan weapon system to be manufactured and purchased from Armscor. This project was started by Alkantpan and transferred to Armscor with continual inputs from Alkantpan.

Gerotek Test Facilities

Gerotek Test Facilities has the strategic role to support South African DOD and Armscor, in terms of test and evaluation of defence related products and systems, as well as maintaining key strategic capabilities.

Gerotek further complements the funding requirements of the capability by offering services and facilities to commercial clients within the military, vehicle and related industries.

Scientific testing requires processes that ensure repeatability, while maintaining local and international standards and accreditation requirements. Well maintained facilities and skilled staff are a prerequisite in providing this capability.

Gerotek also offers a variety of other services to the commercial, motor and military sectors, including advanced defensive driver training, corporate events, restaurant, conference facilities and track facilities to maximise the utilisation of the world-class facility and increase growth opportunities.

Highlights of the services that were offered during the past year include:

1) The testing of military vehicles and components at Gerotek by the local defence manufacturing industry, including the "Africa Truck".
2) Testing of commercial passenger vehicles, trucks, mining and agricultural vehicles and products at Gerotek and on public roads.
3) Development testing of new vehicles at the Gerotek facilities, specifically by BMW and Volkswagen.
4) Hosting of military and Armscor conferences at Gerotek.
5) Co-hosting the first autonomous vehicle conference in South Africa.
6) Hosting of vehicle launches, including heavy and new passenger vehicles, at Gerotek for the commercial vehicle industry.
7) Hosting of vehicle and brand promotions by Gerotek for the commercial motor industry. This indirectly contributed to additional exposure for Gerotek in the media.
8) Testing and the launch of local and international tyre brands, where international media attended to give the facility exposure internationally.
9) Hosting of the second "Consumer Car of the Year Competition", providing extensive exposure to the public, vehicle manufacturers and media including print and social media..
10) Presenting specialised driver training to various private and public sectors.
11) Conducting certain electromagnetic compatibility tests for certification in conjunction with the SABS.

Gerotek offers unique opportunities for scientific testing and to complement successful product promotion and launch programmes, while contributing strategically to road safety and the economy. This is achieved by ensuring that vehicles and other products are tested to conform to required standards and drivers are better equipped to deal with daily road challenges.

Operational and Scientific Research

Armour Development

Armscor has completed the three-year project for the development of Armour Protection Technology. All tests were completed, final reports submitted and invoicing completed. During the third quarter, a new three-year quotation was submitted for the development of Armour Protection Technology. The order placement is imminent.

Armour Development has secured an additional two-year order to conduct tests and development on armour steels to develop a database of critical angles to aid future armour programmes. This order has been received and work has begun.

A large number of commercial ballistic tests were conducted in the 2017/18 financial year, which has contributed substantially to Armour Development's bottom line. Armour Development is still pursuing the establishment of a ballistic test facility that will cover all DOD work, commercial testing and future research programmes.

Protechnik Laboratories

Protechnik Laboratories is an applied chemistry or biochemistry facility with a primary focus on Chemical and Biological (CB) Defence Research and Development. Specialised fields of research include detection, warning and identification of trace amounts of hazardous chemicals; Protection of Personnel in Chemically Hazardous Environments (Respiratory, Body and Collective Protection); Decontamination/Detoxification of chemical/biological agents; Synthesis of test compounds and Chemical Verification standards in support of commitments to the Chemical Weapons Convention. In addition, biomedical studies are undertaken focusing on characterisation and identification techniques for Biological Warfare Agents.

In the execution of all research work, Protechnik is guided by the medium term or three-year plan that is annually reviewed in the presence of the CB Advisor to the Surgeon General and other key stakeholders. In this forum, scientists present project highlights, achievements and challenges, and it has proven to be beneficial in reprioritising on project work and thus guiding the R&D scientific content in the short to medium term.

The section below gives highlights of selected projects for the year under review:

Verification or Analytical Sciences Domain

Protechnik started collaboration with the Netherlands Organisation for Applied Scientific Research, TNO, with the specific aim of developing methods for analysing biomedical samples for unique biomarkers of chemical weapons. A scientist from TNO visited Protechnik for a week in December 2017 to initiate the project. It is envisaged that this collaboration will continue with possible funding from the Organisation for the Prohibition of Chemical Weapons (OPCW). Significant achievements from the visit include that peptide adduct methods for the analysis of the chemical weapon, mustard (HD) were developed. This is a new technique for determining whether a chemical weapon was used in a particular incident or not, a project that is largely driven by the OPCW. Interest in this field stems from the fact that most chemical weapons evaporate within days and later analysis and verification then becomes impossible. The developed methods are applicable in cases where blood of an exposed person is drawn and then samples can be tested up to a year after exposure, which lengthens the time window of determining the chemical weapon used. Protechnik also successfully produced reference standards for the analysis of sulphur mustard peptide adducts.

Protechnik annually presents the Analytical Chemistry Course under the OPCW programme to strengthen cooperation with Africa on the implementation of the Chemical Weapons Convention. Twenty two participants, representing 21 African countries attended the course in 2017.

Protection Domain

Nanoparticle technology has gained tremendous interest worldwide and has found application in numerous spheres of life. However, the toxicity of generated nanoparticles has not been extensively established. From a protection point of view, this poses a question as to whether the available military personal protective equipment (PPE), such as face masks, is suitable to be used against nanoparticles. To address these concerns, Protechnik has embarked on developing a test station, where the protection factor of PPE against nanoparticles can be established. So far, a nanoparticle generator consisting of a nano-electrospray apparatus, particle charge neutraliser and nanoparticle dryer, has been acquired. The protection domain is in the process of acquiring a nanoparticle detector to complement the available equipment setup and take the research work to the next level.

Biomedical Domain

The Biomedical domain has become highly involved with the United Nations (UN) and recently joined the UN Secretary General's international laboratory network. This initiative was workshopped in Spiez, Switzerland in 2017 and the domain was able to meaningfully contribute to the proceedings. In order to contribute positively to this UN initiative, the domain is set to enhance its research focus in the fields of biodefence, environmental toxicology and public health in the short to medium term, an approach that will position Protechnik to efficiently and effectively service the needs of the DOD and the South African population in general.

ERGOnomics TECHnologies

ERGOnomics TECHnologies (ERGOTECH) is contributing to the comprehensive and efficient services in ergonomics and occupational health and safety, required both locally and internationally and is being regarded as a key R&D Division. ERGOTECH is primarily responsible for providing expert ergonomics knowledge to the SANDF with respect to the integration of ergonomics considerations within SANDF military systems. This objective is accomplished by providing military ergonomics research, design and specification of human-machine interfaces and ergonomic evaluation and testing services to the DOD and SADI.

ERGOTECH's scientific research portfolio as mandated, includes military ergonomics studies for the Defence Research and Development Board and for the South African Military Health Service. In order to address their user requirements and research directions, ERGOTECH's approach focused on the application of the following capabilities to provide military-specific ergonomics solutions for improved military-system performance and soldier efficiency:

1) Anthropometry
2) Biomechanics
3) Human physiology
4) Cognitive ergonomics
5) Human functional performance
6) Design and specification of human-machine systems
7) Test and evaluation of environmental stressors, human-machine systems and specialised health and safety issues.

Highlights from the above research domains includes 3-D scan anthropometry of soldiers for accommodation requirements, verifying low dose x-ray imaging for relating internal and surface anatomy to inform the coverage of armour in various postures. They also encompass identifying a new biomechanical modelling tool for evaluation of performance and equipment, understanding the use of exoskeletons within the military environment, and enhancing ERGOTECH's capability in Cognitive Ergonomics by integrating cognitive workload, situational awareness and decision making on performance. A new approach to soldier hydration monitoring was investigated, energy expenditure and thermoregulatory measures evaluated among attack divers and impact of heat stress on South African soldiers examined. Research into blast biomechanics using digital image correlation was initiated and whole-body and hand-arm vibration was tested on High-Speed Rigid Inflatable Boats. The above highlights, along with the numerous research projects performed as part of the above capabilities, formed the basis of the ergonomics research conducted for the SANDF that addressed human and system performance solutions.

Additional research highlights included ERGOTECH's involvement in providing ergonomics specifications and evaluations for Africa Truck and Command and Control recommendations for the Defence Decision Support Institute. ERGOTECH was again involved in the selection of SAAF flight crew incumbents and continued to provide input to the base fitting of the new service dress for the SANDF.

For the 2017/18 period, ERGOTECH's team of interdisciplinary qualified applied ergonomics specialists provided a comprehensive and high quality standard product that is associated with ERGOTECH's research outputs. It is through this objective that ERGOTECH continuously strives to provide ergonomics solutions to optimise human performance, reduce work-related risks, and improve overall productivity: a service unique to the SANDF.

Hazmat Protective Systems

Hazmat was established to manufacture respiratory equipment for military and commercial applications. Impregnated activated carbon is one of the major components required in the manufacturing of respiratory filters. Hazmat impregnates activated carbon in its state-of-the-art carbon impregnation plant, which provides Hazmat with a competitive advantage in the manufacturing of respiratory filters. Hazmat also manufactures uniquely branded filters for commercial clients.

The process of expanding the respiratory filter product range has started and the preliminary laboratory test results on the cartridges are promising. A significant interest for the product has been received from clients.

Sales during the review period were mainly to commercial clients (end-users and distributors in the personal protective equipment market) based in South Africa and Africa.

Hazmat managed to service and maintains all its manufacturing equipment with a limited operational budget. Critical capital items were replaced to ensure Hazmat can manufacture high quality respiratory filters that comply with the latest South African National Standards.

Improvements were made by updating and implementing quality and safety work procedures. Hazmat was audited by the SABS on the implementation and maintenance of the ISO 9001 Quality Management System. Hazmat received no audit findings, which is considered to be a milestone.

Hazmat managed to achieve a positive net income through the implementation of a conscious cost saving effort. This is considered an achievement considering the current economic climate. Hazmat is a self-sufficient entity that can serve the needs of all its major clients.

Hazmat maintained and improved the carbon impregnation and filter manufacturing facilities and can respond to the requirements of the DOD should the need for military filters arise.

The rules and regulations imposed by treasury are a challenge for entities manufacturing and buying goods for reselling in the commercial market space. The procurement process provides a challenge in buying raw materials and goods, as well as to repairing equipment in time to ensure continuation in the manufacturing process and in turn improve on customer satisfaction.

Institute for Maritime Technology

The Institute for Maritime Technology (IMT) is mandated to develop and maintain a sustainable technology capability for providing techno-military expertise in support of naval decision-making for the DOD. IMT specialises in defence research, development, testing and evaluation of maritime systems. Total revenue was recognised from 96,93% of DOD funding, and the balance was generated from commercial sales.

IMT support services and highlights for the 2017/18 financial year include, but are not limited to:

1) Signature Management: Shallow Underwater Test Range Facility
   This project is developing a local underwater range facility to measure underwater signatures of SA Navy vessels. The measurement computer program and the SQL database structure were developed. Development will continue to fully integrate the underwater range system, followed by deployment at sea in the next financial year.

2) Maritime Domain Awareness
   IMT's Maritime Domain Awareness (MDA) system was fully integrated into the SANDF VISTANET system. The real-time vessel tracking data is being archived and distributed according to VISTANET configured rules. IMT successfully integrated six Transnet National Ports Authority's radar sites into both VISTANET and CoastRad systems, through separate Virtual Private Networks.
   IMT is currently supporting Defence Intelligence (DI) to integrate new radars into IMT's scan converter card, and to upgrade the CoastRad software to VISTANET Software. IMT now participates in Operation PHAKISA Work Group 6: Oceans and Coastal Information Management System and on the Integrated Vessel Tracking Task Action Group.

3) Geospatial Decision Support Geographic Information System for MDA
   A Web based demonstrator tool was developed for the visualisation and dissemination of MDA information using Geographic Information System technology. This geospatial technology capability entails the research and development of real-time decision support tools that interfaces with the MDA facility at IMT.

4) Maritime Surveillance: Remote Maritime Video Surveillance
   Software was developed to select the best image out of a sequence of images from long range optical sensors. These sensors usually exhibit intermittent blurring issues due to atmospheric effects such as scintillation. The new technology uses a variance algorithm to intensity the sharpness of the selected image. A demonstrator was developed as required by

the Maritime Reaction Squadron to be able to transmit a video of a boarding boat back to the mother ship.

5) Underwater Locator Beacon Detection System (Pinger Locator)

This project is developing a technology to detect the very short transmissions from flight data recorders and cockpit voice recorders "black box", fitted with an underwater locator beacon "pinger". The improvements are a faster detection algorithm, expansion to three hydrophones, and an added GPS position logging. The preliminary sea trial was able to detect the pinger at a range of 1,8 km with a single hydrophone.

6) Tower Escape Safety System

This project is developing a system that will improve the safety of the current SAN Class 209 Type 1400 submarine tower escape method, which reduces or eliminates risks associated with submarine tower escape activity. The Tower Escape Safety System (TESS) Project Team (IMT, SA Navy, Armscor, and CSIR) evaluated and demonstrated the advanced TESS prototype in the IMT underwater tank facility.

7) Ultrasonic Broken Rail Detector System

Two Ultrasonic Broken Rail Detector (UBRD) Version 4 test installations are under trial with Indian Railways, and system evaluation is ongoing. IMT is also providing a test installation on a portion of the Majuba Power Station railway. IMT is in the final phases of UBRD Version 5 development. A commercial product is planned to be available by the end of the 2018/19 financial year.

8) Shark Repellent System

The development of this technology is a joint effort between KwaZulu-Natal Sharks Board (KZNSB) and IMT. Both parties have made presentations to the Department of Science and Technology (DST) for funding to support further development of the technology to a commercial baseline.

9) Maritime Defence Technology Indaba 2017

IMT successfully supported the SA Navy to coordinate and arrange a Maritime Defence Technology Indaba. The aim of this Indaba was to bring together the navy, defence industry, academia, research institutes and Armscor to workshop current and future maritime technologies to inform the future maritime technology strategy for the DOD. This event was held for the first time in 10 years, and was successfully regarded as a benchmark for future events.

10) Quality Management System

IMT successfully transitioned from ISO 9001:2009 to ISO 9001:2015.

Defence Decision Support Institute

Defence Decision Support Institute (DDSI) renders support to the DOD through the provision of solutions, advice, options and specific specialist support through research and analysis and engineering support as required by the DOD. The services rendered include decision support, operational research, defence analysis, capability analysis, systems engineering analysis and products system management support to defence practitioners in the DOD.

The SA Army Portfolio of projects is funded under a Memorandum of Agreement that specifies the delivery of specialist support services to the SA Army. The services in this portfolio are delivered to Directorate: Army Products Systems Management, focusing on support to the Products Systems Managers (PSMs) within the Directorate. Although the main focus is on the Operational Phase of Products Systems, DDSI supports the PSMs in their management efforts throughout the life cycle of products systems. The services are supplied in the areas of project management, baseline management, systems engineering, logistics engineering and other specialty knowledge areas as may be required, such as obsolescence management. It is noted that the funding from the Directorate for these services has been under pressure due to overall cuts to the defence budget, but DDSI is investigating alternative markets, primarily in the military environment that may be able to make use of the established skill sets.

The Research & Analysis (R&A) Domain provides Defence Decision Support to Defence Secretariat and Joint Operations, and strategic and transformation support to Armscor. Memorandum of Agreement exist with the Defence Secretariat and Joint Operations, and agreements exist for supporting Armscor with the implementation of its strategy. Support is also provided to the Department of Military Veterans' turnaround, with specific focus on the database and business processes re-engineering. The main focus of R&A is currently in support of the defence review implementation. This includes support and guidance within the Permanent Defence Secretariat Planning Team and in the Military Defence Review Implementation Team. Analysis and facilitation is taking place in support of this effort, with the development and refinement of the future force development options in support of joint operations and participation from the rest of the SANDF.

DDSI has been involved with the Africa Truck initiative, as initiated by Chief of SANDF, for the past two financial years. The purpose of the Africa Truck project phase one was to establish a group of specialists in Armscor, CSIR and Denel that can help Denel Vehicle Systems to establish a logistics supply support family of vehicles manufacturing plant. The output of the project was a concept vehicle demonstrator with a data pack as first order baseline for this vehicle. This objective was achieved. All work by DDSI on Africa Truck was finalised during the 2017/18 financial year. A formal acquisition programme has been initiated within Directorate: Army Acquisition, which will now manage the acquisition of logistic vehicles for the SANDF going forward.

Fluid and Mechanical Engineering Group

Fluid and Mechanical Engineering Group (Flamengro) is a Computer Aided Engineering centre of excellence and a strategic capability to the DOD. The centre is mandated to provide a computer-based simulation, failure analysis support and a consultative service to programme managers at the DOD and defence related industry during product and system development. Flamengro provided consultative services to a variety of stakeholders, including test support to DLS on the SS-77 weapon, analysis and engineering support to Denel Aeronautics, Denel Mechatronics, DLS on a turret-based autocannon. It also provided analysis and design services to Armscor's R&D IMT and Reutech regarding a mounting for medium-calibre cannon, and consultative services to Denel Dynamics on novel propulsion cycles for missiles, and aerodynamic analyses for missile guidance and control. Flamengro is involved in the development of a numerical solver for high-speed aerodynamics and a numerical solver for missile motor internal ballistics. Flamengro significantly advanced the state-of-the-art for gun internal ballistics and decision support through continual expansion and development on the STANAG compliant and RTCA178B certified IB-suite of computer analysis software.

The highlights are as follows:

1) Flamengro successfully manufactured and tested the damped cradle bush for large-calibre weapons demonstrating the concept and the marked increase in accuracy and decrease in shock and impulse transferred to the weapon mount, significantly increasing the life expectancy of these components.
2) Flamengro development tested and utilised a high-speed video technique for the rapid measurement of displacement on weapon components negating the requirement for expensive accelerometers.
3) Flamengro successfully performed 880 high-fidelity aerodynamic analyses over a period of two month demonstrating the high-performance computing capability established at Armscor's R&D and the world-class locally developed solver for high-speed aerodynamics. This capability allows for a prior design and testing of high-fidelity missile guidance systems at a significantly reduced cost.

2.2.3 Armscor Dockyard

The Dockyard is the SA Navy's maintenance repair authority responsible for the upkeep of the SA Navy fleet. It is one of South Africa's strategic national capabilities, where the country's Naval Defence capabilities are housed.

Its primary responsibility is planned maintenance, facilities upkeep and provisioning of strategic support services including docking services, power supply, fuel support and other essential services. Government priorities continue to shift focus from the defence budget to other needy areas and this, coupled with the economic downturn, poses challenges to the Dockyard.

The operational requirements of the war ships and submarines acquired through the strategic defence packages and legacy systems are resulting in huge demands. The current budget is insufficient to maintain and repair the operational output of the SA Navy, which in turn is posing a major capability risk on the Dockyard as its primary repair authority.

Submarine

Armscor has lost some of its maintenance and repair capabilities over the last decade because of insufficient funding, and struggled to sustain, rejuvenate and establish additional capabilities.

In terms of the Dockyard Transfer Agreement and the Service Delivery Agreement, the Dockyard provides the following services to the DOD:

- The management of the Dockyard as a strategic facility of the SA Navy, to be available for service provision to the DOD.
- The provision of support services to satisfy the SA Navy's fleet requirements.

This mandate has to be executed in support of the following operational services:

- Third line maintenance, repair and refitting of the SA Navy fleet.
- Operational defects
- Docking and essential defects
- Upgrades to and modernisation of the SA Navy's fleet

The primary mandate is to ensure that the Dockyard is transformed into an efficient, effective and an economically viable operation for fleet maintenance support to the SA Navy, whilst the secondary mandate is to utilise spare capacity and exploit commercial opportunities.

Armscor Custody

The Minister of Defence and Military Veterans announced in May 2018 that the Dockyard will stay within the custody of Armscor and will not be transferred to Denel. Furthermore, a task team is in the process of compiling a renewal strategy to ensure the sustainability of the Dockyard as an integral part of the Armscor capabilities. The strategy will be presented to the Armscor's Board for approval and implementation. Some of the aspects to address are the rejuvenation of the workforce, equipment, facilities and capabilities to ensure the sustainability and viability of this entity going forward. In order to make up for some of the funding shortage experienced, there will also be a drive to take up some of the capacity with commercial work to obtain a break-even position.

Infrastructure Upkeep

The planning and execution of the maintenance and repair plan on the Simon's Town Synchro lift platform was the primary project during the 2017/18 financial year. This deliverable was as a result of the inspection survey carried out by the original equipment manufacturer TTS on both the Simon's Town and Durban platforms. The dry docking facilities were in full use during the reporting period to accommodate the SA Navy's fleet and a number of commercial vessels. The Fuel Farm upgrade project is critical from a safety operational perspective and this is being done in collaboration with the SA Navy. Progress was made on the listed capital equipment items that will ultimately contribute to the facilities improvement initiatives. The dry dock, lift platforms and other equipment remain essential in support of the required maintenance of the SA Navy fleet. It is critical that these strategic assets be maintained in operational conditions with effective maintenance scheduling and planning of outmost importance.

Projects Highlights

The Dockyard's performance is based on a SLA agreed between the SA Navy and Armscor. This is reviewed annually, and signed off against the mutually agreed milestones at the end of the reporting period. In this regard, the Dockyard met all its obligations and performances. All projects were delivered within the mutually agreed milestones.

A number of projects were undertaken during the reporting period as planned (Refits and Docking Essential Defects). The projects were executed in accordance with the respective user requirements and Statement of Work.

The overall project and progress performance against the completed projects and sign-offs by the SA Navy is summarised below:

- SAS Mendi (DED) = 95%
- SAS Protea (DED) = 98%
- SAS Umhloti (DED) = 95%
- TUG Umalusi (DED) = 90%
- TUG Indlovu (REFIT) = 90%

Average = 93,6%

SAS Mendi DED

The vessel is still in an extended DED. Funding has been made available to the SA Navy System Manager for the procurement of spares. Once the spares become available, Dockyard will attend to the replacement of these items and assist ship staff in having systems functional and tested. The task of removing and installing of the Port Engine (cut-outs of hanger decks, installation of supports, removal of equipment, etc.) has been completed. The administration of the order placement on the organisation MTU as OEM and a Rigging Services Provider for the decommissioning and commissioning of the new Customer Finished Equipment Port Engine is in process. The planned date for docking of the vessel to commence with the engine change is in its final planning stage.

SAS Protea DED

The vessel dry-docked on 31 May 2017 and undocked on 18 September 2017. The bow-thruster was removed by Dockyard and supplied to the SA Navy's mechanical contractor to be overhauled. The vessel is currently operational. All Dockyard's work has been completed and the D339 signed off by the SA Navy on 6 November 2017.

SAS Umhloti DED

The DED commenced on 14 March 2017 and the vessel undocked on 25 October 2017. The main engine, which was overhauled by the SA Navy contractor, is still being set to work. The work has been successfully completed, assessed and signed off by the SA Navy on 5 March 2018. The D339 reading will be done after the acceptance trials have been completed.

TUG Umalusi DED

The project was scheduled for completion by the end of October 2017. All Dockyard tasks were successfully completed. Two main engines and generators were contracted out by the SA Navy to its propulsion contractor. During the Harbour and Sea trials, the vessel experienced an overheating problem, which to date is still unresolved between the SA Navy, ship staff and the propulsion contractor. The project has been successfully assessed and signed off by the SA Navy on 27 March 2018. The D339 reading will be done once the above challenge has been resolved.

TUG Indlovu Refit

The refit started on 5 September 2017. Due to the unforeseen challenges regarding the extensive maintenance to be undertaken on the synchro-lift, the vessel cannot undock to attend to harbour acceptance trials and sea acceptance trials programme. The project has been successfully assessed and signed off by the SA Navy on 27 March 2018. Once the vessel undocks, Dockyard will assist the ship staff to commence with the setting to work of their systems on board.

SAS Charlotte Maxexe Refit

The vessel has been stripped and preserved. The SA Navy has made R35m available for the procurement of spares. Dockyard has commenced with the establishment of the submarine internal repair capability as part of the overall rejuvenation plan.

2nd Mandate Commercial Work

Armscor has generated R6,038m commercial work for the reporting period in support of making up the shortfall in funding from the SA Navy. This will be expanded on in the new financial year.

Financial Authorities for Projects

Armscor submitted Financial Authority requests for materials/spares and casual labour (fixed-term contractors) to the SA Navy for the 2017/18 financial year. The amount of R18 497 165.85 was approved and a total of R17 542 214.43 was paid equating to a 94,48% spend.

2.3 SUPPORT FUNCTIONS

2.3.1 Business Assurance

Quality

Armscor carries out its operations in a manner that does not compromise the safety or wellness of its employees and that due care is exercised to ensure minimal damage to the environment. This is achieved through a multi-dimensional approach to Quality Management, which entails product quality assurance, tender process assurance, and the Safety, Health and Environment (SHE) Management system.

Quality Management System

Following a directive from ISO that the 2008 version of ISO 9001 Quality Management System (QMS) standard will no longer be valid or accepted at the end of September 2018, Armscor embarked on a journey to migrate to the latest version of the standard. To this end, Armscor has reached a major milestone having successfully achieved conformance to the requirements of ISO 9001:2015 QMS standard, following an audit conducted by the SABS in March 2018.

Supplier Quality Management

Armscor renders a quality assurance service on projects to ensure that its suppliers or service providers comply with specifications and relevant standards as prescribed in the order or contract. The performance of suppliers is monitored through an in-house developed tool called Armscor Contractor Quality Index (ACQI), which takes into consideration factors relating to the supplier's QMS status, acceptance or rejection ratio, deviations, and corrective action requests issued. For the period under review, the ACQI reflects a slight improvement on contractor quality performance when compared with the previous financial year. This is attributed to various quality surveillance initiatives implemented by Quality Representatives at contractors, including strict adherence to quality control practices and procedures.

3rd Party/Government Quality Assurance

Armscor provides a third party or Government Quality Assurance (GQA) service to all interested parties, including other government departments, and overseas companies that acquire products in the local defence market. The current GQA clients are the South African Police Services, the Department of Correctional Services, the Netherlands and Germany. In the year under review, Armscor conducted a software safety certification audit at Reutech Communications as part of GQA service. Following an expression of interest received from Thales and promising engagements held with Australia, the department anticipates growth in GQA work in the future.

Safety, Health and Environment Management

The management of SHE matters is a crucial component of any organisation and is largely regulated by statutory requirements. In an attempt to ensure that compliance to these requirements is achieved, the Corporate SHE division conducts regular audits and reviews on a quarterly basis at all Armscor sites and ensures that corrective action measures are implemented to address any non-conformances that may be identified.

The Alkantpan Test Range reached a significant milestone and achieved certification against the ISO 14001 Environmental Management System standard. Gerotek Test Site also maintained their certification against the ISO 14001 Environmental Management System and Occupational Health and Safety Assessment Series for Safety and Health Management System.

Corporate Compliance

Corporate Compliance consists of the following divisions: Legal Services, Arms Control Compliance, Black Economic Empowerment (BEE), and Compliance and Risk.

Legal Services

During the period under review, Armscor's Legal Services defended matters brought against the Corporation and instituted action on behalf of the Corporation. There are no prescribed matters.

Arms Control Compliance

The main objective of the Arms Control Division is to develop, implement and maintain the processes and procedures that are necessary for the execution of arms control compliance. It is aligned to the National Conventional Arms Control Committee Act, 41 of 2002, Non-proliferation Act, 87 of 1993, Firearms Control Act, 60 of 2000, Explosives Act, 26 of 1956 and requirements of supplier countries.

The procedure to apply for End-User Certificates and/or Undertakings was revised and approved for implementation. Arms Control Internal Compliance is currently under review to include Turnaround Strategy Initiatives. It is anticipated that the document will be finalised by no later than the end of June 2018.

All applications that were received to request amendments to existing contracting permits and issuing of domestic transfers, import and export (including temporary) permits were successfully approved and permits were issued.

All End-User Certificates/Non-Transfer Certificates and End-User Undertaking that were processed by Arms Control Division were accepted by the requesting countries.

The Arms Control and Asset Tracking System has been fully operational throughout the financial year and there was some upgrading to the system to include a window to apply for Temporary Two Way Permits. There is, however, additional requirements to implement improvements to the system such as a window to capture Armaments Development Manufacturing and Services (ADMS) permits, marketing and contracting permits as well as the report for all linked permits, and this is in process.

Status for Permit Applications

Renewal of ADMS Permits

The following ADMS permits were renewed during the 2017/18 financial year:

a) AB Logistic ADMS permits –The application was submitted to the Directorate of Conventional Arms Control (DCAC) in July 2017 for approval and the permit was issued in October 2017 and, will last for a period of three years.

b) Armscor ADMS permit - the application to amend and renew the current registration of Armscor was submitted to the DCAC in February 2017 to incorporate the Turnaround Strategy Sustainability Initiative and was issued in April 2018.

Renewal of Armscor Registration with Non-Proliferation Council

The application to renew the Armscor registration with the Non-Proliferation Council was approved and the certificate was extended by two years, calculated from the date of issue, June 2017.

Marketing Permits

The application to request the issuing of a marketing permit, which will accommodate both the Turnaround Strategy Initiatives as well as the scope of activities for Defence Material Disposal was submitted to the DCAC and it has been approved. The permit was issued in March 2018.

Applications to amend existing Contracting Permits

There were three applications received to request amendments to the existing contracting permits and the status is as follows:

CONTRACTING PARTY	REASON TO APPLY	STATUS
Finmeccanica S.P.A, Italy	To request name change from Finmeccanica to Leonardo S.P.A.	Approved
Advanced Metal Engineering, Singapore	To request extension of the scope of order and to include disposal of controlled items (serviceable) ammunition.	Approved
Brazil	To request extension of contract expiry date from 2017 to 2018.	Approved

Table 1: Details of new contracting permits for 2017/18 Financial Year.

Status for End-User Certificates and End User Undertakings

Forty-seven applications to request End-User Certificates and End-User Undertakings were received for this reporting period. These were all approved.

Black Economic Empowerment

One of the highlights was the development and gazetting of the Defence Sector Charter. This process gave the public an opportunity to provide comments or inputs to the Charter to ensure that it is inclusive. Another highlight is the implementation of the Preferential Procurement Regulations from April 2017, which supports small black enterprises.

Notwithstanding, there is a challenge regarding non-compliant suppliers, i.e. those suppliers that do not submit valid Broad-Based Black Economic Empowerment (BBBEE) certificates when submitting tender documents. This has a negative impact on the overall BBBEE spend.

NB: Qualifying Small Enterprises (QSEs), Exempted Micro Enterprises (EMEs), Black Owned Enterprise (BOE) and Black Women Owned Enterprise (BWOE).

The report below depicts an analysis of procurement and BBBEE spend per department.

Acquisition

PROCUREMENT SPEND	BBBEE ACTUAL SPEND	BBBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R5 780 989 691	R5 911 607 340	102,26%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	BBBEE ACTUAL SPEND	BBBEE ACTUAL%	TARGET%
Above R35m turnover	R3 343 849 563	R3 582 363 549	61,97%	-
QSEs	R442 063 603	R538 428 981	9,31%	15%
EMEs	R78 640 036	R90 800 896	1,57%	15%
Specialised above R50m	R1 890 167 482	R1 700 013 914	29,41%	-
Non-compliant suppliers	R26 340 448		(0 ,46%)	0,00%
BOE >51%	R1 360 621 339	R1 003 843 369	17,36%	40%
BWOE >30%	R649 407 967	R172 613 534	2,99%	12%
BOE >25%	R3 086 423 947	R1 561 844 090	27,02%	-
Foreign	R779 155 490	R0	R0	-
Military Veterans	R30 624 758	R37 587 662	0,65%	2%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target	2% of surplus	Nil

ENTERPRISE DEVELOPMENT	TARGET	ACHIEVED
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target	1% of surplus	Nil

Table 2: Analysis of procurement and BBBEE spend by Acquisition

Research and Development

PROCUREMENT SPEND	BBBEE SPEND	BBBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R183 993 221	R200 414 696	108 ,93%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	BBBEE ACTUAL SPEND	BBBEE ACTUAL%	TARGET%
Above R35m turnover	R13 363 981	R10 991 432	5,97%	-
QSEs	R21 041 806	R28 128 256	15,29%	15%
EMEs	R83 338 101	R104 104 835	56,58%	15%
Specialised above R50m	R62 073 051	R59 190 173	32,17%	-
Non-compliant suppliers	R4 176 282		(2 ,27%)	0,00%
BOE >51%	R90 235 089	R83 895 924	45,60%	40%
BWOE >30%	R26 429 050	R20 119 508	10,93%	12%
BOE >25%	R98 257 651	R86 272 355	46,89%	-
Foreign	R1 020 100			
Military Veterans	R67 896	R91 660	0,05%	2%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target	2% of surplus	Nil

ENTERPRISE DEVELOPMENT	TARGET	ACHIEVED
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target	1% of surplus	Nil

Table 3: Analysis of procurement and BBBEE spend by Research and Development

Dockyard

PROCUREMENT SPEND	BBBEE SPEND	BBBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R23 499 867	R25 651 717	109,16%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	BBBEE ACTUAL SPEND	BBBEE ACTUAL%	TARGET%
Above R35m turnover	R4 647 787	R4 960 351	21%	-
QSEs	R5 135 518	R6 627 176	28,20%	15%
EMEs	R9 998 281	R12 872 785	54,78%	15%
Specialised above R50m	R1 191 405	R1 191 405	5,07%	-
Non-compliant Suppliers	R1 997 918		(8,50%)	0,00%
BOE >51%	R13 087 977	R11 614 590	49,42%	40%
BWOE >30%	R9 178 068	R5 990 098	25,49%	12%
BOE >25%	R17 890 219	R13 500 713	57,45%	-
Military Veterans	R0		0,00%	2%
Unknown Spend Amount	R528 958		(2,25%)	0,00%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target	2% of surplus	Nil
ENTERPRISE DEVELOPMENT	**TARGET**	**ACHIEVED**
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target	1% of surplus	Nil

Table 4: Analysis of procurement and BBBEE spend by Dockyard

Operating Budget

PROCUREMENT SPEND	BBBEE SPEND	BBBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R58 124 359	R60 885 996	104,75%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	BBBEE ACTUAL SPEND	BBBEE ACTUAL%	TARGET%
Above R35m turnover	R30 176 684	R35 408 096	60,92%	-
QSEs	R1 922 312	R2 507 317	4,31%	15%
EMEs	R14 017 066	R18 880 541	32,8%	15%
Specialised above R50m	R4 097 495	R4 090 043	7,04%	-
Non-compliant Suppliers	R2 595 698		(4,47%)	0,00%
BOE >51%	R21 092 425	R18 763 317	32,28%	40%
BWOE >30%	R10 992 146	R7 290 614	12,54%	12%
BOE >25%	R31 234 875	R22 065 080	37,96%	-
Military Veterans	R997 526	R1 196 209	2,06%	2%
Unknown Spend Amount	R5 315 103		(9,14%)	0,00%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target	2% of surplus	Nil
ENTERPRISE DEVELOPMENT	**TARGET**	**ACHIEVED**
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target	1% of surplus	Nil

Table 5: Analysis of procurement and BBBEE spend on Operating Budget

Achievement of Targets

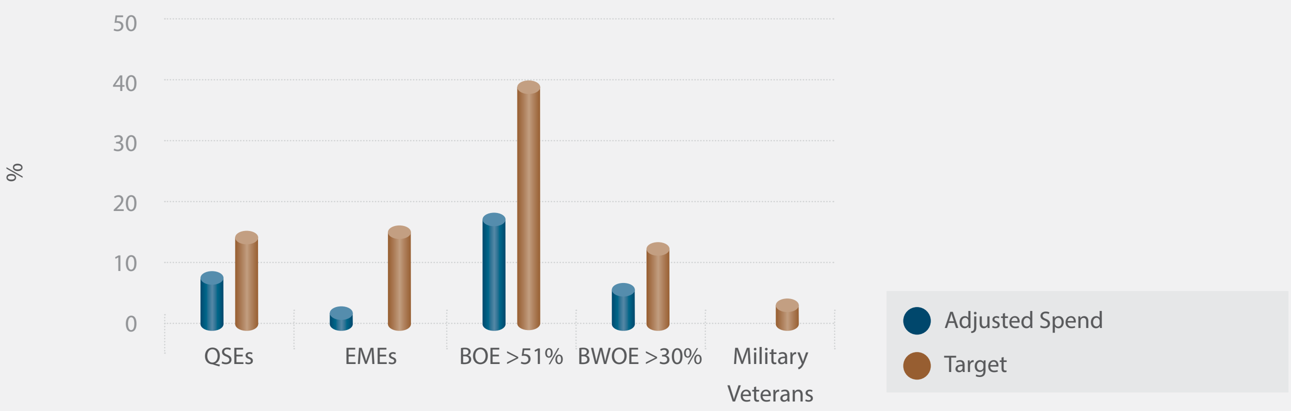

Figure 5: Acquisition's performance against targets

The Acquisition did not achieve the targets in respect of procurement from QSEs, EMEs Black owned and Black Women Owned suppliers including Military Veterans.

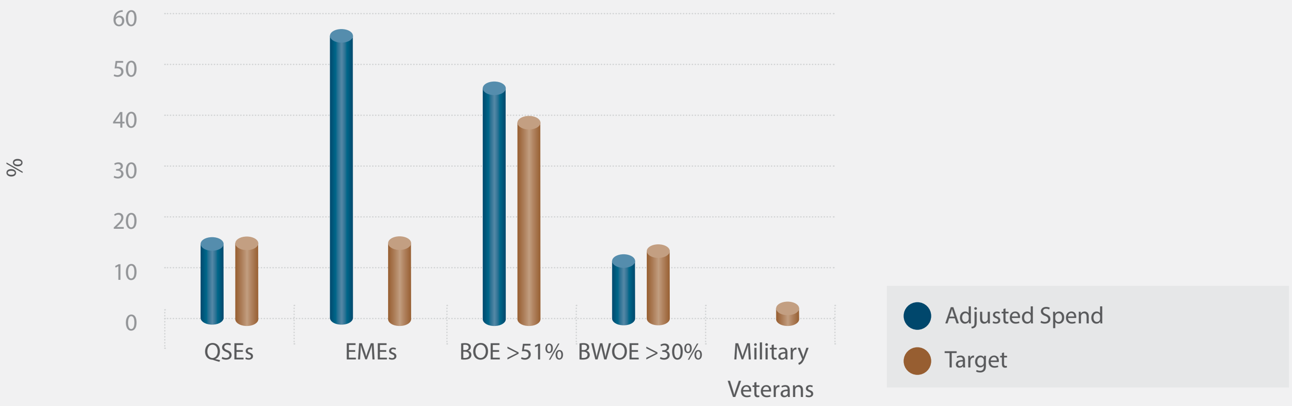

Figure 6: Research and Development's performance against targets

The Research and Development met all the targets except for Black Women Owned Enterprises and Military Veterans.

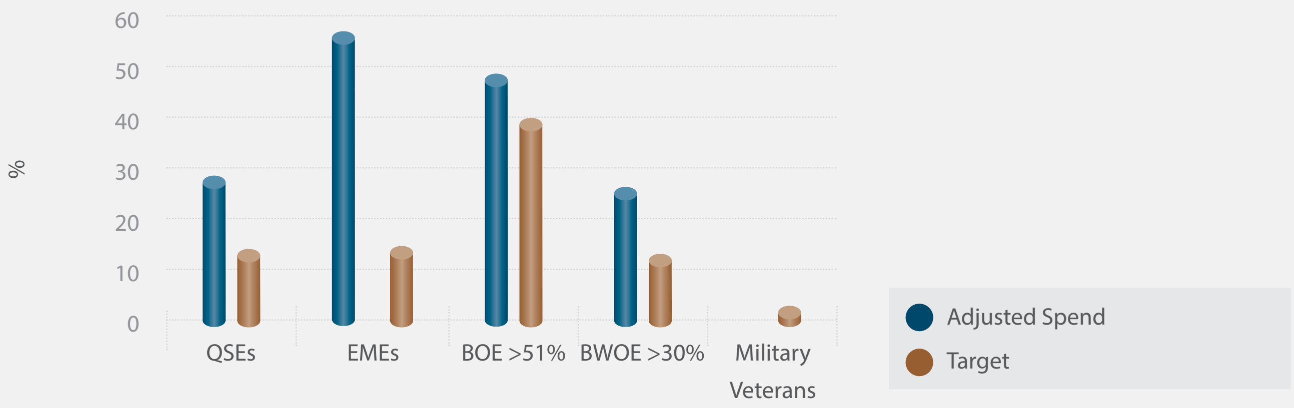

Figure 7: Dockyard's performance against targets

Dockayard has achieved all the targets except for Military Veterans

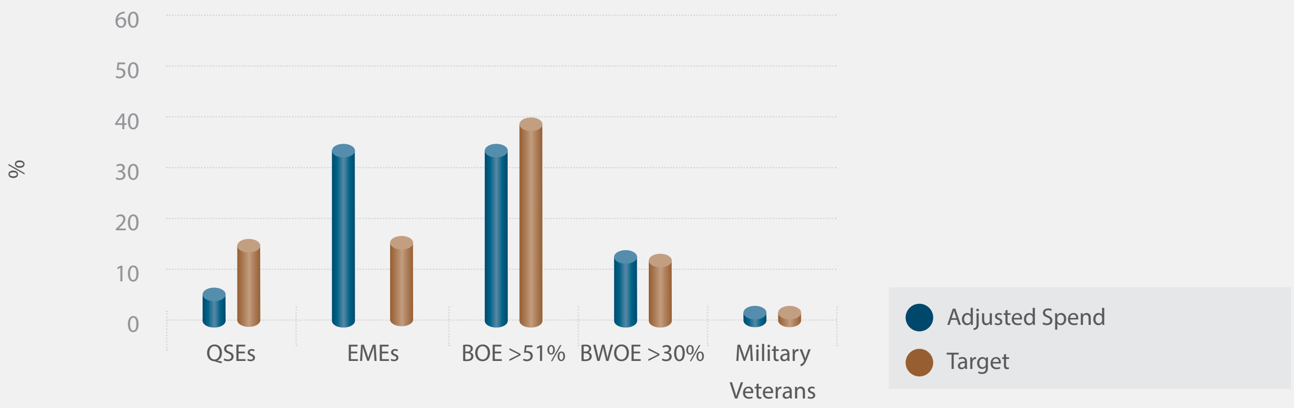

Figure 8: Spending on Operating Budget against targets

The targets for EMEs; BWOEs and Military Veterans were achieved on the Operating Budget. However, the targets for QSEs and procurement from at least 51% BOEs were not met.

Development of the Defence Sector Charter

The Defence Sector Charter was gazetted by the Minister of Trade and Industry for public comments for a period of 60 days. The Charter was then submitted to the Steering Committee Chairperson for submission to the Minister of Defence and Military Veterans for approval.

Compliance and Risk

The Compliance and Risk Division remains focused on ensuring that Armscor implements governance principles when reporting on compliance and risk matters. This is done through aligning the reporting periods to the Board Committee's reporting structures. The reporting structure allows for a consultative period with various departments and committees prior to a report/submission to the Board.

Risk Management

Corporate Risk Register

The Corporate Risk Register representing the current risks exposed to Armscor was presented and approved by the Board of Directors. The process followed collated top risks from each department and the compilation of a Corporate Risk Register.

Government to Government Risk

During the financial year under review, a Government to Government Risk Register, which represent emerging risks for Armscor, was approved by the Audit and Risk Committee and the Board.

Denel Risk Report

The Denel Risk Report, which looked at the investment made in Denel SOC Ltd by the DOD and Armscor over the last 10 years, was approved for the implementation of the recommendation.

Compliance Management

Regulatory Universe

The Regulatory Universe Project Plan to address the backlog in finalising priority legislation was approved by the Audit and Risk Committee on 23 November 2017. It was requested that a quarterly progress report on the implementation of the Regulatory Universe Project Plan be presented to the Audit and Risk Committee. During the period under review, legislative assessment plans were conducted on certain legislation in terms of the approved implementation plan for key legislation.

Code of Conduct and Ethics Implementation Plan

For the period under review, Armscor undertook the process of revising the Code of Conduct and Ethics as well as its implementation plan and submitted it, for consideration and approval by the Audit and Risk Committee.

Fraud Risk Management

Fraud risk management remains an organisational responsibility. For the period under review, the appointment of a panel of investigators who will assist in investigating sensitive matters was finalised. The details of the panel of investigators will be published on the intranet.

Compliance and Risk Management Committee

The Compliance and Risk Management Committee (CRMC) serves as a sub-committee of EXCO. The role of the CRMC is to monitor Compliance and Risk Management within Armscor and report on key matters to the Audit and Risk Committee and the Board of Directors. Three meetings were held during the financial year under review.

2.3.2 Corporate Support

Corporate Communication

Stakeholder Relations

Armscor continues to look at ways to improve and strengthen relationships with its stakeholders. Stakeholder engagement is vital for the organisation's sustainability and thus forms a critical element on the organisation's agenda. It is for this reason that Armscor has prioritised this area as critical and has identified it as one of the key strategic initiatives.

The importance of stakeholder engagement is not only limited to being an integral part of the organisation's business, and does not only enhance the organisation's image, but is driven through a focus on the outcomes that move the organisation towards delivering the required capabilities as per its mandate. For the period under review, some of the stakeholder engagement initiatives included the following:

Engineering Day
Armscor hosted the Engineering Day on 15 August 2017 at the CSIR. The event was aimed at marketing the professional registration with the Engineering Council of SA (ECSA). The day seeks to highlight the need for professional engineers to register with the ECSA to earn Continued Professional Development credits and the need to keep technical employees informed on technical issues.

Corporate Social Investment

As a socially responsible organisation that supports communities in which it operates, Armscor's CSI in education focuses on improving results in Science Technology Engineering and Mathematics (STEM) subjects in an endeavour to promote and stimulate the growth of engineers and scientists in the country.

The objectives for CSI as set in line with the organisation's objectives are focused on Human Capital Development; to assist learners from previously disadvantaged communities to improve their performance and results in the STEM subjects and provide interns with on-the-job training to develop technical skills and gain work experience. It is also focused on the Socio-Economic Upliftment Programme; aimed at improving lives of communities and creating an inclusive economy.

The following CSI activities were undertaken:

Human Capital Development Programme
Armscor's CSI programme is focused on building human capital through supporting initiatives that are geared towards alleviating poverty, inequality and unemployment through education and other socio-economic development initiatives. The Learner Enhancement Programme seeks to assist learners, specifically from previously disadvantaged communities, to improve their performance and results in STEM subjects. Armscor's Learner Enhancement Programme has three pillars in the delivery of improved performance in STEM subjects:

- Educator support in teaching STEM subjects.
- Learner support in the form of Saturday classes, etc.
- Mobile Science Experiments Laboratory - tools to enable practicals in the sciences.

UMgungundlovu/uThungulu Education District

A spring revision camp was offered to top performing students from the outreach programme. About 14 schools in the UMgungundlovu District benefited. Mathematics teachers' skills improvement and use of technology training was offered to 24 teachers in the UThungulu District. Gingindlovu District also benefited from a mobile science laboratory that was delivered to Isandlwana High School, enabling a further 10 other schools in the district to conduct science experiments.

Isandlwana High School mobile laboratory

Mobile science laboratory was handed over to Isandlwana High School. There are 10 other high schools in the area that will benefit from this equipment. The school also benefited from the refurbishment of the computer laboratory in time for their final information and communication technology exams.

Queenstown District (Eastern Cape)

Support in the form of learner material, transportation and refreshments was offered to the Queenstown community where 160 leaners from Mount Arthur and Mount Frere Schools benefited.

iThemba labs (Western Cape)

Saturday classes, tuition for maths and science spring school, material, transportation and refreshments (Khayelitsha, Nyanga and Langa) were funded.

Osizweni Education and Development Centre (Mpumalanga)

The support was provided in the form of tutoring for Saturday school classes and, spring classes including transport and meals. Three schools from Lekwa District benefitted from the initiative.

University of Fort Hare programme

University of Fort Hare (UFH) established the Forte School of Science Technology, a centre that enables and encourages learners to pursue and excel in science, maths and technology related fields. The aim of this programme is to provide supplementary education to learners through effective use of modern teaching aids.

Armscor's involvement is to ensure that resources towards implementation of learner development and enhancement programme are available. The programme is implemented over a period of three years (2016 - 2019).

Machepelele High School Education Training Programme

Armscor has partnered with the Hatfield Christian Online School for the online training of educators at Machepelele Secondary School in the STEM field. Machepelele is the only science dedicated medium school in the Letaba Municipality (Limpopo).

Armscor collaborates with DESUP. This is the DOD project that seeks to enhance the military effectiveness of the SANDF by augmenting the relevant student output whilst also improving equity in relation to disability, gender and race to develop an innovative Defence Science, Engineering and Technology industry.

The aim of the programme is to influence improvement of the pass rate in maths and science subjects. For the year under review, DESUP has funded 83 undergraduate bursaries for science and engineering studies and 46 apprenticeships.

Social Relief Programme

This programme aims to improve the lives of communities by providing social relief in cases of emergencies or disaster and to charitable or good causes.

Initiatives undertaken are as follows:

Jonguhlanga School sponsorship

Armscor donated chainsaws to Jonguhlanga High School as a contribution to ensure that the school will go a long way towards ensuring sustainable, credible operations and a conducive environment for learning.

Knysna Disaster relief and KZN Floods Disaster Response

Armscor provided support during the fire disaster that devasted Kynsna in June 2017 by donating to the Gift of the Givers, which is an organisation that has been in the forefront of assisting with disasters and emergencies nationally and globally. It also supported the province of KwaZulu-Natal during the floods by donating to the same organisation. This donation assisted the victims who had lost their homes and belongings in the Durban area.

Mandela Day

#ACTION AGAINST POVERTY

Armscor joined the rest of the country in celebrating Nelson Mandela Day on 18 July 2017. The day was celebrated in line with the National theme of Action Against Poverty. The day was spent at Mamogwai Secondary School (Winterveld, north of Pretoria). All Armscor divisions were also involved in making the lives of communities better.

Cell C Take A Girl Child to Work

The Cell C's Take a Girl Child to Work campaign occurs annually and affords grade 10 to 12 girl learners, from all walks of life, a chance to experience a day in the workplace to be inspired to reach their future goals.

Beeld Spinathon

Armscor has been supporting the Beeld Spinathon, which is an activation platform that supports the Beeld Children's Fund for several years. The Fund has a variety of charities that support more than 5 000 children every year. Since inception, more than 200 000 children have benefited from this fund and about 30 projects for children in need are funded annually. The funds are channelled towards projects that help, protect, secure and empower underprivileged, disabled and abused children (Children in need).

Apostolic Faith Mission

Armscor provided support to the children's school holiday awareness campaign. The aim is to reduce crime, gang violence, drug and substance abuse amongst youth and children in Calvinia, situated in the Northern Cape.

Ministry's Outreach Programme

Armscor provided support to two ministry outreach programmes that created awareness about crime, violence against women and children in the Eastern Cape.

Socio-Economic Upliftment Programme

This programme aims to improve the lives of communities and creating an inclusive economy.

Initiatives undertaken are as follows:

- Women in Military Veterans ESD Armscor partnered with the Masisizane Fund to facilitate the inclusion of small businesses, especially designated groups that include Military Veterans in various incubation initiatives. CTU's Manufacturing Primary Co-Operative, which is one of Masisizane Fund's clients, committed to provide an incubator programme for the Military Veterans' beneficiaries and transfer skills that will result in financial and operational independence.
  CTU's Manufacturing Cooperative is a 100% black owned and women managed co-operative. It has been in operation for the past eight years. CTU manufactures fully guaranteed products focusing on hospital linen, uniforms and corporate and personal protective clothing including equipment. It employs more than 100 people mostly women and youth. The incubation training benefitted women in military veterans.
- Armscor supported the school garden programme in Atteridgeville aimed at teaching learners and educators in vegetable gardening for the benefit of the community.

Information and Communication Technology

Information and Communication Technology Governance

ICT governance is being monitored at EXCO level and reported to the Board on a periodic basis.

Although Enterprise Architecture (EA), which is a blueprint of an organisation, is important in ensuring that the business requirements are planned and implemented as they arise and change, it has not progressed well in Armscor. In order to address this challenge, the EXCO approved a new plan for implementing EA within the organisation. A service provider was appointed to deliver an automated solution for capturing and maintaining the EA of Armscor.

Armscor Business Application Renewal Programme

Armscor invested in implementing systems that will consolidate dispersed and outdated transactional systems currently being deployed in the Corporation. These systems will also address the challenges related to inadequately automated business processes, hence the need to improve on business efficiency and effectiveness.

Enterprise Resource Planning System

In November 2015, Armscor placed a R24 million contract on nTier Software Services Trust, a black-owned SMME, to deliver an Enterprise Resource Planning solution based on an iDempiere Open Source platform.

The following business functions were contracted along with support for two years, ending December 2019:

- Budgeting and Forecasting
- HR and Payroll
- Finance

- Security
- SCM
- Project Management

The project has so far delivered a budget and forecasting module, which is the launch module for the project, and this module has already been used for drafting the budget for the 2018/19 financial year. Challenges that led to the delay of the HR and Payroll and Finance modules were mainly due to underestimation of the effort required by the service provider, combined with long lead times in reaching agreement with the user community in terms of the user requirements. This was further exacerbated by the service provider's staff turn-over and lack of operating capital, which meant that the service provider could not replace lost resources leading to inadequate technical resources to deliver the project.

With the intervention of top management, mitigations have been put in place to salvage the project. The new delivery date of the HR and Payroll and Finance modules is scheduled to be in the second quarter of the 2018/19 financial year. This will have a cascading effect on the delivery date of the subsequent modules. However, the goal is still to meet the final delivery date of December 2019.

Laboratory Information Management System

Armscor laboratories are operated under strict international laws, and one of the requirements is to have a laboratory information management system to effectively and efficiently account for all experiments or tests conducted. The Corporation has hence undertaken an initiative to implement the required system. The development of the Laboratory Information Management System is complete and will be operational during the 2018/19 financial year.

Business Continuity

In order to ensure security of the online data in an organisation, and ensure business continuity in a case of a disaster, it is vital to have off-site back-up data storage. Due to changes in the approach to data backup and recovery, Armscor moved towards insourcing the backup data centre or disaster recovery site from a service provider to one of the facilities of the Corporation. The only outsourced service is the Work Area Recovery, seating, which is a facility that can be used by one of the Armscor sites for office space, should the need arise.

2.3.3 Business Enablement

The implementation of the Armscor strategy necessitated structural changes in the organisation and Business Enablement is one of the newly established business units. The business unit is made up of five divisions, namely: Marketing, Sustainability, Property Management and Leveraging, Disposal and Logistics. In essence, the Business Enablement unit was established to advance the organisation towards achieving and maintaining long term financial sustainability through leveraging Armscor's capabilities.

The Business Enablement unit is primarily responsible for providing the following services:

- Market Armscor and SADI's capabilities to targeted markets.
- Identify, pursue and realise business from marketing and business development initiatives.
- Support growth, development and transformation of SADI.
- Manage and leverage:
  - Armscor and DOD property portfolio;
  - disposal of defence materiel;
  - logistic freight services; and
  - travel management services.
- Build, maintain and enhance stakeholder relationships.

Marketing

Defence Industry Support

Armscor provides an integrated defence industry support to the SADI. The support includes facilitation of SADI's participation at local and international exhibitions and marketing of the Corporation's products and services in the defence and aerospace environment, as well as the management of requests for the utilisation of SANDF equipment, personnel and facilities for marketing exposure.

Defence Exhibitions and Events

It is deemed important that SADI increases its exports to sustain its survival in the competitive international defence environment. International exhibitions are acknowledged worldwide as one of the best channels to assist in promoting products and services and are used as a marketing channel by Armscor to market SADI. Although results might take time to be realised, exhibitions are also ranked as the most efficient way of achieving marketing objectives.

SADI contributes to South Africa's economy through the development and maintenance of high-level scientific, engineering, technological and technical skills and jobs, as well as advanced design, development and manufacturing processes.

A survey was conducted within SADI to determine the local defence industry's interest to participate at international exhibitions, which was used to co-ordinate Armscor's support of SADI at the following exhibitions:

International Events

- LAAD Defence and Security 2017 was held from 4 - 7 April in Rio de Janeiro, Brazil. The event was approved by the Department of Trade and Industry as a national pavilion with a 260m2 stand, with 20 SADI companies attending. Two new SMMEs (Zero Industries and Cliffs Way Aerospace) got an exposure at an international level when they participated for the first time at LAAD 2017. This event was used to strengthen the BRICS multilateral agreement. South Africa remains committed to the consolidation of the African Agenda and utilises its BRICS membership to increase strategic cooperation among emerging market economies of the South in support of this agenda. The India, Brazil, South Africa (IBSA) Memorandum of Understanding on Trilateral Cooperation in Science, Technology and Innovation entered into in 2010 and the IBSA Dialogue Forum provides South Africa with a platform to engage in discussions for cooperation in the field of agriculture, trade, culture, and defence, among others with its trilateral partners.
- International Defence Industry Fair (IDEF) 2017 was held from 9 - 12 May in Istanbul, Turkey. This event was initially approved as a national pavilion but later converted to an independent pavilion due to withdrawal of DTI funding. As a result, Armscor invested R1,3m to support the four SMMEs (Imperial Armour, Ripple Effect, Zero Industries and Zebra Sun) by sponsoring the stand to promote their capabilities. All of the companies gained new clients and business leads with one company making direct sales on the stand.

From L to R: Mr A King, Dr S Gulube, Mr R Ramgolam, Col K Mpiwa, Ms R Swanepoel, Mr E Motumi, Mr C Nqakula, Ms M Mojapelo, Col L Malotana and Mr M Letsoalo.

- Defence and Security Equipment International (DSEI) 2017 was held from 12 - 15 September in London, United Kingdom. One of the objectives of Armscor's participation at DSEI was to explore and learn more about the availability of finances available to support SADI and Armscor's export initiatives into Africa. Discussions with UK Export Finance yielded positive outcomes with the UK making available £5m as a loan facility to finance projects that Armscor will pursue in Africa. These projects are aimed at supporting SADI in penetrating the African market. Special attention was given to SMMEs, where Armscor sponsored the participation of Thata Ubeke, a black women owned company.
- Land Forces West Africa was held in Abuja, Nigeria from 26 - 27 September 2017. Armscor participated in this inaugural event to execute its strategy of "Unlocking Africa's defence potential". The aim of the engagement was to create a market presence in Nigeria and to engage the Director for Procurement for the Chief of Army Staff regarding the finalisation of

a pending government to government sales agreement. Unfortunately, this deal did not materialise but valuable lessons were learnt for future business activities.

- The first African Air Show and Conference was held from 24 - 25 October 2017 in Accra, Ghana. After careful consideration of various factors, inter alia: relevance to Armscor's strategy, economic viability and market potential, the decision was taken not to participate through the exhibition, but to support the event through attendance at the parallel conference. Armscor was represented by several Board members to support the organisation's strategy of "Unlocking Africa's defence potential".
- The Defence and Security exhibition was held from 6 - 9 November 2017 in Bangkok, Thailand. The South African participation represented by Ripple Effect and the CSIR was coordinated by Armscor. VIP guests included the Honourable Minister of Defence and Military Veterans, Ms N Mapisa-Nqakula, the Secretary of Defence, Dr S Gulube and Armscor's CEO, Mr K Wakeford. The South African/Thailand Chamber of Commerce and the Defence Technology Institute of Thailand and Ministry of Defence were very supportive of the South African presence in Thailand.

Local Events

- Department of Correctional Services (DCS) visited Armscor on 8 August 2017 as part of Armscor's vision to become the acquisition agency for other organs of state. Several marketing actions were executed with the DCS, which included visits to two facilities of the DCS to understand their unique requirements. This has led to a formulation of an SLA between Armscor and DCS, which still needs to be signed off by DCS. DCS has already placed three new orders with Armscor.
- The Homeland Security Conference was held on 17 October 2017 at the CSIR where 270 delegates attended. The conference was officially opened by the Minister of Defence and Military Veterans and the Secretary of Defence was in attendance. An Armscor paper "Counter digital threats through cooperation", which highlighted the importance of having an effective and cooperative cyber security strategy was presented.
- The KwaZulu-Natal Export Week was held on 17 October 2017 at the Durban ICC (Inkosi Albert Luthuli Convention Centre). The South African Aerospace Maritime and Defence Export Council invited a high-level delegation from the defence sector to be part of panel members. The topic was "25 Years of Export Led Growth in the Aerospace and Defence Sector".
- Armscor participated in the RSA - Finland Defence and Security Industry Seminar held on 18 October 2017. The purpose of the seminar was to enhance and explore collaborative opportunities between the defence industry companies in both countries.

- Armscor hosted the DMO Netherlands on 13 November 2017 at Armscor Head office in support of the Government Quality Assurance contract that the DMO placed with the organisation. The group also visited Gerotek where this facility was promoted to the group to expand the business footprint with the Netherlands.
- The promotional activity also included a comprehensive tour of the three facilities located at Protechnik - Hazmat, Ergotech and Protechnik laboratories.
- Armscor hosted Military Attaches and Advisor Corps (MAAC) at Protechnik on 16 November 2017 to promote Armscor's offerings.

Defence Equipment Personnel Support

Armscor provides marketing and matériel aid support to the SADI by facilitating the use of SANDF equipment, personnel and facilities. Defence Equipment Personnel Support (DEPS) provides comprehensive guidance on the utilisation of DOD personnel, equipment, matériel and facilities by the SADI in support of their strategic marketing initiatives that are consistent with government and defence policies. DEPS is the nodal point for registering and processing marketing support requests. This also involves proper administration, evaluation, contracting and handling of funds received from the requester (SADI) and the payment of funds to the DOD. There has been a decrease of 36% in the number of requests received for DEPS services during the reporting period with 32 requests registered against 52 during the previous year. This decrease is attributed to AAD last year where many request were received. However, DEPS was able to generate revenue for the DOD of R11,8m. This is an increase of 393% from the previous year. This function also supported various SADI companies with their export marketing activities in the following countries during the reporting period, namely: United Arab Emirates, Jordan, Oman, Finland, Germany, Ecuador, Pakistan, Qatar and Canada.

Defence Foreign Liaison

Foreign Liaison is responsible for liaising with both local and foreign stakeholders to promote Armscor and the SADI. Foreign Liaison achieves this by acting as a communication and interaction conduit between Armscor, the MAAC in South Africa, South African Military Attachés in International assignments, foreign defence industry representatives and diplomats, the South African DOD, and SADI. Foreign Liaison also identifies the needs and desires of all stakeholders and facilitates the realisation of these needs to achieve the objectives of the organisation.

As part of its responsibility to render assistance to Defence Foreign Relations and DOD, Armscor Foreign Liaison participated in the following Defence Committee Meetings:

- 21 - 22 August 2017, RSA/Jordan.
- 21 - 22 September 2017, RSA/Zimbabwe.
- 26 – 28 September 2017, RSA/Nigeria.
- 9 -13 October 2017, RSA/Zambia.
- 24 - 25 October 2017, RSA/USA.
- 15 - 16 November 2017, UK/RSA
- 5 - 7 December 2017, India/RSA.

Foreign Liaison coordinated and facilitated meetings between Armscor HR and representatives from the French and Russian Embassies. As a result of this, two Armscor employees will be studying in France during 2018.

Armscor facilitated a visit of United States capstone fellows to the DOD to position the country as a gateway to Africa in terms of development and security.

Armscor met with a high-level Department of International Relations and Cooperation team to discuss its involvement at the upcoming AU Summit and the launch of the Centenary of Nelson Mandela. Three opportunities identified will be explored during the next calendar year.

Sustainability

ICT Work for the DOD

A memorandum of agreement was signed by DOD and Armscor in December 2017 for the development of ICT frameworks. The frameworks will enable the DOD to comply with national legislation for ICT, and will result in a requirement for a functional structure to execute the implementation phase. The revenue generated for the development of the frameworks was R3,2m, with further work being expected in the implementation phase.

DOD also signed a tasking letter for the development of a Cyber Command Capability, subject to the confirmation of the operational phases.

Local and Foreign Government Work

An implementation plan has been completed for Armscor's strategy for being the gateway to government to government deals, promoting inter-Africa trade, forming mutually beneficial partnerships to offer complete solutions and facilitating the streamlining of internal processes and capabilities. A draft Memorandum of Understanding (MOU) with the Department of Cooperative Governance and Traditional Affairs is in the process of being approved. Several MOUs with local municipalities await signatures and are currently being reviewed. The local government in several provinces have been engaged i.e., Western Cape, KwaZulu-Natal, Free State and Gauteng for collaborations with regards to Armscor's products and services required by these municipalities and financial commitments are currently being negotiated. Various African defence forces were also engaged to promote Armscor service provision. There are several defence procurement requests in process.

AB Logistics Freight Forwarding Services

Armscor continues to provide comprehensive logistics management services to SANDF, SADI and foreign defence forces with regards to military sensitive commodities and hazardous cargo. This is in support of the acquisition supply chain requirements during import and export process, rendering air, sea, rail, road freight and chartering distribution network globally to all stakeholders.

The business unit is a registered and accredited customs clearing agent with the South African Revenue Services. Armscor is proud to have maintained its position as a registered transporter of hazardous material, weapons and ammunition in terms of the Explosives Act and Firearms Control Act. In terms of the South African Arms Control Regime, Armscor is registered with the National Conventional Arms Control Committee (NCACC) and the South African Council for the Non-proliferation of Weapons of Mass Destruction.

AB Logistics (ABL) is a member of:

- International Federation of Freight Forwarders;
- South African Association of Freight Forwarders; and
- Road Freight Association.

During the year under review, freight services volumes decreased by 1,13% from the previous year to 1 399 shipments. The financial contribution made by ABL increased by 30,3% compared to the previous year from R9,9m to R12,9m due to bulk shipments. Efforts to market Armscor's capabilities including freight logistics to identified target markets in Africa are expected to yield business opportunities and positive results.

AB Logistics maintained its position as a registered transporter of hazardous material, weapons and ammunition.

Armscor continues to support the SANDF in its joint military exercises with other countries, as well as transporting SANDF equipment for its peacekeeping missions and operation in Africa.

In the year under review, Armscor has been instrumental in assisting international clients with freight services to test defence equipment at the Alkantpan ballistic test range facility in the Northern Cape. The Nigerian Department of Defence has purchased 68mm rockets from the Defence Disposal Division and ABL was contracted to assist with the export of the munitions and the cargo was successfully exported to Nigeria. ABL was contacted by the SANDF Logistics Support Formation office to support them with their inland cargo movements during the month of February 2018 for the Armed Forces Day celebrations. The event took place in Kimberley, Northern Cape.

ABL supported the DOD to write a policy for the movement of assets across international borders. The policy included detailed information on the regulatory requirements with reference to the applicable legislation for purpose of import and export compliance. A Nodal office for the DOD was established at ABL to assist with planning of joint military exercises. It will also render support in terms of compliance requirements, which were previously handled by ABL.

Property Management and Leveraging

Property Management and Leveraging (PML) division plays a strategic role and act as a developer and repository of the standards, processes, and administration of projects.

Armscor owns a number of property assets and intends to sweat such assets. Gerotek and Alkantpan have established businesses that are currently operating. The intention is to develop further business activities adjacent to the existing operating facilities with minimum disturbance. The proposed business activities will have to be vetted to ensure that the state security imperatives are not compromised in any way.

In March 2018, a portfolio of properties available to the market was enabled. All interested parties were invited to submit offers for the development and/or the leasing of the land parcels. This is a milestone that will lead to Armscor realising revenue from asset sweating.

Defence Disposal Solutions

Armscor's Defence Disposal Solutions (DDS) mandate provides for the disposal of excess and obsolete defence matériel on behalf of the DOD. Defence matériel to be disposed normally includes items such as ammunition, aircraft, spares, vessels, and land-and/or air-based equipment. Disposal of the defence materiel is carried out in accordance with the requirements of the DOD and regulatory authorities such as the NCACC and the National Non-Proliferation Council.

DDS concluded orders to the value of R72,3m during the reporting period of which R36,5m was derived from local defence industry collaboration through rework, upgrades and sales of new DRI equipment. The African market was the main source of revenue and DDS continues to grow its African presence. During the reporting period, Armscor sold DOD surplus and redundant stock and other defence matériel to the South African defence-related industry. The moratorium instituted by the DOD on the sale of Samil-type vehicles has remained in force, and continues to impact negatively on sales and revenue generation by Armscor.

During the reporting period, Armscor commenced with the implementation of the disposal turnaround strategies, which has resulted in an increase in revenue derived from collaboration with the local defence industry. The Corporation has furthermore initiated some attractive revenue generating opportunities for the future.


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ARMSCOR
Armaments Corporation of South Africa SOC Ltd

50 YEARS
Towards a Sustainable Future

3 CORPORATE GOVERNANCE

3. CORPORATE GOVERNANCE

3.1 DIRECTORS REPORT

Introduction

This is the Directors Report for the period 2017 – 2018 and relates to the performance of the Corporation for the year under review.

Background

This report is therefore presented in terms of the relevant provisions of the PFMA and the Companies Act. It provides an overview on the performance of Armscor, measured against performance targets that the Corporation had set itself for the year under review.

Nature of Business

Armscor's mandate is contained in the Armscor Act. This is briefly to meet the defence materiel requirements of the DOD effectively, efficiently and economically; and the defence technology, research, development, analysis, test and evaluation requirements of the DOD effectively, efficiently and economically.

The Corporation must adhere to accepted corporate governance principles, best business practices and generally accepted accounting practices within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

The functions of Armscor are to acquire defence matériel for DOD, manage technology projects for DOD, establish program management system in support of acquisition and technology projects, establish a tender evaluation and contract management system with regard to defence matériel or if agreed in SLA, for commercial materiel, dispose of defence matériel, establish a compliance administration system with regard to arms control, support and maintain strategic and essential defence industrial capabilities, resources and technologies, provide marketing support and maintain special capabilities/facilities for strategic or security reasons, as required by DOD, even if those capabilities/facilities are not commercially viable.

Armscor may, with the approval of the Minister, exploit such commercial opportunities as may arise out of the Corporation's duty to acquire defence materiel or to manage technology projects; procure commercial materiel on behalf of any organ of state at the request of the organ of state in question; and subject to the National Conventional Arms Control Act, 2002 (Act No. 41 of 2002), the Regulation of Foreign Military Assistance Act, 1 998 (Act No. 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act 1993 (Act No. 87 of 1993), perform any function, which the Corporation may perform for or on behalf of the Department in terms of this Act for or on behalf of sovereign of any state.

The Minister may impose such conditions in respect of the performance of the said functions as may be necessary in the national interest.

Share Capital

The Government of the Republic of South Africa is the sole shareholder of the Corporation. No new shares were issued during the year under review.

Organisational Structure

The organisational structure of the Corporation appears on page 23 of this report.

Communication with the Executive Authority

The Executive Authority for Armscor is the Minister of Defence and Military Veterans, who represents the shareholder. Communication with the Executive Authority is channelled primarily through the office of the Chairman. In addition, there are further engagements between the Minister and the CEO.

Regular reporting was undertaken in terms of the Shareholder's Compact, and additional ad hoc reports were also submitted for consideration by the Minister. A shareholder's meeting also took place during the year under review.

Directorate

The Directors of the Corporation and their brief Curricular Vita appear on pages 24 - 27 of this report.

3.1.1 Corporate Governance

Armscor is a statutory body, established in terms of the Armaments Corporation of South Africa Limited Act (Act No 51 of 2003), as amended. It is also a State Owned Company as contemplated in the Companies Act, 2008. Furthermore, it is listed as a schedule 2 Public Entity in terms of the PFMA (Act 1 of 1999), as amended. It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies Act, 2008. Armscor also subscribes to good corporate governance principles contained in the King III Report on Good Corporate Governance for South Africa 2009, and Protocol on Corporate Governance in the Public Sector 2007.

The Corporation services the requirements of the DOD or other clients in terms of a SLA. The SLA is based on the Shareholder Compact, be focused on the functions of the corporation, specify measureable objectives and milestones, specify a system to monitor the delivery of service, provide for the maintenance of the Corporation's capabilities over the long term, provide for the terms and conditions applicable to the service to be rendered by the Corporation.

The Shareholder

The Government of the Republic of South Africa, represented by the Minister of Defence, is the sole shareholder of the Corporation. The shareholder relationship is managed, amongst others, through the Armscor Act, the PFMA, the Companies Act, 2008, the Shareholder Compact and the Corporate Plan. The Shareholder Compact sets out the deliverables agreed between the Corporation and the Minister of Defence. It is supported by a Corporate Plan, which ensures that the Corporation's targets, measures and outputs are clearly articulated to enhance the Board's accountability.

In accordance with the Shareholder's Compact, the Minister must meet with the Board of Directors at least twice a year. During the year under review, the shareholder met with the Board once.

Board meetings with Minister of Defence and Military Veterans and Attendance of Meetings	
Board Member	**26/02/2018**
Vice Adm (Ret) RJ Mudimu (Chairman)	P
Amb T Skweyiya (Deputy Chairperson)	A
Dr MB Khanyile	P
Adv VL de la Hunt	P
Mr NM Tyibilika	P
Mr RM Vokwana	P
Amb JT Ndhlovu	P
Ms T Mhlari	P
Ms CE Simpson	P
Mr KPE Wakeford (CEO)	P
Mr JG Grobler (CFO)	P

Key:

P – Present	A – Absent with apology

3.1.2 Board of Directors

The Board of Directors have been appointed in terms of Section 6(1) of the Armscor Act and should consist of nine non-executive members and two executive members, namely the CEO and the CFO. During the year under review though, the Board's term of office was renewed by the Minister and three new members have been appointed to fill the three non-executive members vacancies. The new members are Ms T Mhlari, Ambassador J Ndhlovu and Ms C Simpson. The Board is therefore operating under a full complement. The renewal of the Board's term is a tribute to the Board's excellent working relations that it has been granted a further opportunity to author a new chapter for Armscor and the defence industry in general.

The Board of Directors continues to provide ethical leadership to the Corporation and accordingly oversee the management of the strategic direction of the Corporation and the application of its assets in a fair and transparent manner.

During the year under review, the Board executed its responsibilities in accordance with the Board Charter. Board responsibilities included;

- Managing and controlling the affairs of the Corporation as set out in section 6(1) of the Armscor Act;
- performing the functions of the accounting authority for the Corporation as contemplated in section 6(2) of the Armscor Act and section 49(a) of the PFMA;
- providing effective leadership and control in terms of approving the Corporations strategy and ensuring control over its operational implementation. The Board as the accounting authority takes responsibility for both its success and failure.
- ensuring that the Corporation continues to operate as a viable and sustainable going concern by exercising effective control and leadership on material decisions having an impact on the Corporation;
- providing oversight on human, operational and financial resources available within the Corporation to achieve its objectives;
- playing a key role in setting, reviewing and monitoring compliance with the Corporation's values;
- represent and serve the shareholder's interests by overseeing appraising the strategies. Policies and performance of the Corporation; and
- ensuring that the shareholder is kept informed of the Corporations performance and any major developments.

Board meetings

At each meeting, the members of the Board are required to declare any interest they may have in respect of any matter to be decided at that meeting. During the year under review, no member had interest in any of the matters serving before the Board. In preparing documents for submission to the Board, management is required to certify that all relevant information has been placed before the Board to enable it to make decisions that serve the interests of the Corporation.

Members of the Board have unrestricted access to the Company Secretary, who is required by law to provide them with guidance with regard to the proper discharge of their responsibilities and to certify in the annual report that the Corporation has complied with all applicable laws and regulations.

During the 2017/18 financial year, the Corporation held six board meetings, five Special Board meetings and one two-day board induction session. The following tables show the meetings of the board respectively.

Board of Directors and Attendance of Meetings						
Board Member	**31/05/2017**	**07/07/2017**	**25/08/2017**	**20/10/2017**	**07/12/2017**	**16/03/2018**
Vice Adm (Ret) RJ Mudimu (Chairman)	P	P	P	P	P	A
Amb T Skweyiya (Deputy Chairperson)	P	P	P	P	P	P
Dr MB Khanyile	P	P	P	P	P	P
Adv VL de la Hunt	P	P	P	P	P	P
Mr NM Tyibilika	P	P	A	P	P	P
Mr RM Vokwana	P	P	P	P	P	P
Amb JT Ndhlovu	P	P	P	P	P	P
Ms CE Simpson	P	P	P	P	P	P
Ms T Mhlari	P	P	P	P	A	P
Mr KPE Wakeford (CEO)	P	P	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P	P	P

Key:

P – Present A – Absent with apology

Special Board of Directors and Attendance of Meetings					
Board Members	**12/07/2017**	**20/09/2017**	**01/12/2017**	**16/02/2018**	**27/03/2018**
Vice Adm (Ret) RJ Mudimu (Chairman)	P	P	P	P	P
Amb T Skweyiya (Deputy Chairperson)	P	P	P	P	A
Dr MB Khanyile	P	P	P	P	P
Adv VL de la Hunt	A	A	P	A	P
Mr NM Tyibilika	P	P	P	P	P
Mr RM Vokwana	A	P	A	P	P
Amb JT Ndhlovu	P	P	A	P	P
Ms CE Simpson	P	A	P	P	A
Ms T Mhlari	P	P	A	A	P
Mr KPE Wakeford (CEO)	P	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P	P

Key:

P – Present A – Absent with apology

Board Induction/Review Sessions	
Board Member	**31/08/2017 – 01/09/2017**
Vice Adm (Ret) RJ Mudimu (Chairman)	P
Amb T Skweyiya (Deputy Chairperson)	P
Dr MB Khanyile	P
Adv VL de la Hunt	P
Mr NM Tyibilika	P
Mr RM Vokwana	P
Amb JT Ndhlovu	P
Ms CE Simpson	P
Ms T Mhlari	P
Mr KPE Wakeford (CEO)	P
Mr JG Grobler (CFO)	P

Key:

P – Present A – Absent with apology

Board Engagements with Portfolio Committee on Defence and Military Veterans

As prescribed in the Shareholder's Compact, the Board of Directors as the accounting authority for the Corporation shall present the Corporation's Annual Report, Financial Statements and Corporate Plan for the year under review to the Minister as a representative of the Shareholder. The Minister tables the reports in the National Assembly in the presence of members of the Board. Before these reports are tabled at the National Assembly, the Board presents the Reports to the Portfolio Committee on Defence and Military Veterans (PCDMV). The table below provides information about the Board engagements with the PCDMV.

Board engagements with Portfolio Committee on Defence and Military Veterans and Attendance of Meetings		
Board Member	**23/05/2017**	**11/10/2017**
Vice Adm (Ret) RJ Mudimu (Chairman)	P	P
Amb T Skweyiya (Deputy Chairperson)	P	P
Dr MB Khanyile	P	P
Adv VL de la Hunt	P	P
Mr NM Tyibilika	P	A
Mr RM Vokwana	P	P
Mr KPE Wakeford (CEO)	P	P
Mr JG Grobler (CFO)	P	P

Key:

P – Present A – Absent with apology

Board Strategic Review Sessions

The meetings of the Board of Directors are governed by the Board's Terms of Reference, which make provision for further meetings of the Board to take place as and when the Board deems it appropriate and are convened by the Chairman. The Board during this period combined the strategic session to pave the way for 2017, with the Board Induction highlighted in the previous page.

3.1.3 Board Committees

The Board of Armscor has various Committees, which consider submissions from management on critical issues affecting the Corporation. The Committees report on their work at each Board meeting.

Audit and Risk Committee

The Audit and Risk Committee has been established as a committee of the Board of Directors, in terms of Section 12(2) of the Armaments Corporation Act No. 51 of 2003, read with Section 77 of the PFMA No 29 of 1999, Section 94 of the Companies Act, No. 71 of 2008 and the Armscor Board Charter.

The Committee comprises four independent non-executive directors, as members of the Committee. The service of the Committee's independent member, Mr L Kuse, was terminated on 10 July 2017 as a result of the appointment of new Board members with the skills and experience that was previously missing from the Committee. Ms C Simpson took over the chairmanship of the Committee from Dr M Khanyile from June 2017.

Unless otherwise directed by the Committee, the following persons shall have a standing invitation to the meetings of the Committee:

- CEO
- CFO
- Chief Audit Executive (CAE);
- Executive Manager: ICT;
- Executive Manager: Cyber Security;
- Auditor-General or his/her representative.

The Committee assists the Board of Directors in discharging the following oversight responsibilities:

- Ensuring that the Armscor group has and maintains effective, efficient and transparent systems of financial and risk management and internal control;
- ensuring the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the group;
- preparing accurate financial reporting and monitoring compliance with all applicable legal requirements and accounting standards; and
- ensuring corporate accountability and managing the associated risk in terms of management, assurance and reporting.

Audit and Risk Committee and Attendance of Meetings				
Members	**26/05/2017**	**28/07/2017**	**23/11/2017**	**26/02/2018**
Ms CE Simpson (Chairperson)		P	P	P
Dr MB Khanyile	P	P	P	P
Ms T Mhlari	NA	P	P	P
Mr NM Tyibilika	P	P	NA	NA
Mr L Kuse*	A	NA	NA	NA
Mr KPE Wakeford (CEO)	A	A	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key:

P – Present A – Absent with apology * independent member NA – Not appointed in committees

Technology, Industry Support and Sustainability Support Committee

The Technology, Industry Support and Sustainability Committee consist of four non-executive directors and two executive directors. The mandate of the Committee was extended to include matters related to the sustainability of the Corporation. The main role and responsibilities of the Committee as outlined in the Committee's Terms of Reference is to advise the Board on the following:

- The appropriate policy framework for research and development, intellectual property management and industry support;
- the existence or acquisition and management of intellectual property within the approved policy framework and how such intellectual property may be exploited to the best advantage of the DOD in line with the Armscor Strategy;
- the development of channels of communication between Armscor, the Defence Industry and any other role players to facilitate the effectiveness of Armscor's market positioning; and
- the appropriate policies, strategies and business cases on sweating of assets, entering new markets and undertaking government to government trade for Armscor's benefit and sustainability.

Technology, Industry Support and Sustainability Committee and Attendance of Meetings				
Members	**30/05/2017**	**13/07/2017**	**16/11/2017**	**02/03/2018**
Mr NM Tyibilika (Chairman)	P	P	P	P
Amb T Skweyiya	P	P	P	A
Adv VL de la Hunt	P	P	P	P
Amb J Ndhlovu	NA	P	P	P
Mr KPE Wakeford (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key:

P – Present A – Absent with apology NA – Not appointed in committees

Acquisition Committee

The Acquisition Committee consist of four non-executive directors and two executive directors. The acquisition of defence matériel requirements of the DOD is one of the main objectives of the Corporation as set out in Section 3(1) (a) of the Armaments Corporation Act No. 51 of 2003 (as amended). As such the role of the Committee is to assist the Board with the balancing of power and the effective discharge of its responsibilities by:

- Overseeing the development of acquisition policies, rules and procedures for approval by the Board;
- considering and making recommendations to the Board on the requirements of the DOD or other clients to the Board;
- deciding on the strategic nature and implications of acquisition projects and whether such projects should be disposed of by the Committee or are of such a nature that they require consideration by the Board; and
- considering and disposing of acquisition and procurement submissions within the approved limits.

During the year under review, the Committee met as follows:

Acquisition Committee and Attendance of Meetings					
Members	**21/04/2017**	**01/06/2017**	**20/07/2017**	**15/11/2017**	**16/02/2018**
Mr RM Vokwana (Chairman)	P	P	A	p	P
Dr MB Khanyile	P	P	P	P	P
Mr NM Tyibilika	P	P	P	P	P
Ms CE Simpson	NA	NA	P	P	p
Mr KPE Wakeford (CEO)	P	P	P	P	P
Mr JG Grobler (CFO)	A	P	P	P	P

Key:

P – Present A – Absent with apology NA – Not appointed in committees

Human Resources, Social and Ethics Committee

The Human Resources, Social and Ethics Committee is attended by four non-executive members, and two executive directors. The role of the Committee is to assist the Board with the balancing of power and the effective discharge of responsibilities by:

- Advising the Board on the formulation, implementation, monitoring and review of the Corporation's human resources practices, polices and strategies;
- advising the Board on all matters relating to conditions of service, remuneration, reward and retention strategies;
- overseeing and providing direction to management on behalf of the Board to ensure that the Corporation's conducts its human resource affairs fairly, effectively and efficiently;
- monitoring the Corporation's activities relating to its social impact taking into consideration all relevant legislation, legal requirements and codes of best practice; and
- ensuring that the Corporations ethics management process is managed effectively and efficiently.

Human Resources, Social and Ethics Committee and Attendance of Meetings				
Members	**30/05/2017**	**21/07/2017**	**16/11/2017**	**02/03/2018**
Adv. VL de la Hunt (Chairperson)	P	P	P	P
Amb T Skweyiya	P	P	P	A
Mr RM Vokwana	P	NA	NA	NA
Ms T Mhlari	NA	P	P	P
Amb JT Ndhlovu	NA	P	P	P
Mr KPE Wakeford	P	P	P	P

Key:

P – Present A – Absent with apology NA – Not appointed in committees

Disqualification of Directors

None of Armscor's Board members are disqualified from serving as directors on any of the grounds contained in either the Companies Act, 2008 or in the PFMA and its regulations.

Board Remuneration

Non-executive directors are remunerated on the basis of Board and Board Committee meeting attendance and preparation. The fees are based on the determination by the Minister in consultation with National Treasury.

3.1.4 Major Initiatives During The Reporting Period

Turnaround Initiative

The Corporation embarked on phase 2 of the Turnaround Strategy. The approach adopted was that this phase would be management led with the support of external service providers in their areas of specialisation. The first project – strategic planning process - commenced as a means of embedding the change process within the organisation and linking key performance indicators and performance with the strategic agenda of the organisation.

Square Kilometer Array and Alkantpan

The Square Kilometer Array (SKA) Technical Committee, which comprises of representatives from the DST, Armscor and the DOD has been established and has been meeting regularly. The committee looks at the range bookings, possible interferences and how to mitigate them. It handles short term operational issues between the SKA and Alkantpan Test Range. To date the Committee has been able to manage the co-existence between the SKA and Alkantpan Test Range successfully.

Defence Transformative Enterprise Development Programme

DEFTED Programme was successfully migrated to Armscor; a risk management plan was prepared, approved and implemented. The number of SMMEs supported was increased from two to five, using the same available financial resources. The turnaround times on payments to SMMEs was improved from several months from date of acceptance of deliverables to three days from date of acceptance of deliverables. Overall the Programme was executed in a more efficient and effective manner at a nominal management fee.

Defence Engineering and Science University Programme

The DESUP was successfully reviewed and the execution thereof migrated to Armscor. The programme's management has improved, with all beneficiaries now having valid work back agreements with Armscor. A review of the reach and coverage of the DESUP was done and a plan formulated to roll out the programme in a more inclusive manner, including higher education institutes, which have previously not participated in the Defence Sector.

3.1.5 Financial Reporting

The Directors are required by the Companies Act 2008 to produce financial statements, which fairy represent the state of affairs of the Corporation as at the end of the financial year and the profit and loss for that financial year, in conformity with South African Generally Accepted Accounting Practice (GAAP) and the Companies Act 2008.

The Financial Statements set out in this report have been prepared by management in accordance with South African GAAP and the Companies Act 2008 and are based on appropriate accounting policies supported by reasonable and prudent judgements and estimates.

The Directors are of the opinion that the financial statements fairly present the financial position of the Corporation as at 31 March 2018, the results of their operations and cash flows for the year then ended.

The Board has reviewed the Group's Financial Budgets for the period 1 April 2018 to 31 March 2019 and is satisfied that adequate resources exist to sustain the Corporations operations. Armscor is, furthermore, in discussion with the DOD to ensure proper funding for the required functions to be performed. The directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

Dividends

No dividends were declared or paid to the shareholder during the year under review.

Post Balance Sheet Events

As reflected in this report and financial statements, no material facts or significant circumstances, which affect the financial position of this Corporation or group have arisen between the date of the balance sheet and the production date of this report.

3.1.6 Litigation

Beverly Securities

The action was brought against Armscor by Beverly Securities in the Civil Court of Lisbon for the alleged non-payment of commission in respect of the Oryx Helicopters procured for the SAAF. The value of the claim is approximately 192 million Euros. Armscor is opposing the matter and has filed the necessary papers in its defense. It is expected that the reports of expert witnesses in respect of the use of the Oryx Helicopters will be obtained during the course of 2018 prior to the matter being set down for trial in the Civil Court of Lisbon. The prospect of success in the defense of the matter still remains good.

New Generation Arms Management (Pty) Ltd

The matter relates to the recovery by Armscor of the amount of approximately R6.1 million from New Generation Arms Management (NGAM). The amount is in respect of statutory costs paid by Armscor to SARS on behalf of NGAM. Armscor obtained default judgment against NGAM and while proceeding with the necessary execution steps, Armscor received a Notice of Application for Rescission of the default judgement. Armscor has opposed the application. The liquidators of NGAM have now requested the Court to grant condonation for the late filing of the Application for Rescission. Armscor is opposing the application and a court date is awaited.

Quaker Peace Centre

The Plaintiff, Quaker Peace Centre, is a non-profit and public benefit organisation. Armscor is the Second Defendant in this matter with the Government of the Republic of South Africa acting through its Departments of Finance, Defence and Military Veterans and Trade and Industry as First Defendant. In the particulars of claim, the Plaintiff essentially attacks the procurement process of the Hawk and Gripen aircraft as well as the loan agreement concluded by the Minister of Finance in the acquisition of these systems. The prospects of success in defending the matter are good.

Labour Matter 1

Armscor had reviewed the CCMA ruling in which a certain ex-employee alleged constructive dismissal. The matter was reviewed and the Labour Court found in favour of Armscor. Pursuant to the unfavorable outcome, the former employee lodged an application for leave to appeal and the application was dismissed by the Labour Court and the Plaintiff subsequently petitioned the Labour Appeal Court. The Court has granted such leave to appeal. The matter is ongoing.

Labour Matter 2

The Plaintiff's employment with Armscor terminated on the basis of operational requirements. The Plaintiff is in dispute with Armscor regarding certain post–retirement medical benefits as well as the formula used to calculate the severance package agreed upon. The matter is progressing in the normal course.

3.2 AUDIT AND RISK COMMITTEE

Introduction

The Audit and Risk Committee is a statutory body established as a committee of the Board of Directors, in terms of Section 12(2) of the Armaments Corporation Act No. 51 of 2003, read with Section 77 of the Public Finance Management Act No. 29 of 1999, Section 94 of the Companies Act, No. 71 of 2008. The Audit and Risk Committee has adopted the terms of reference approved by the Board of Directors and has discharged its responsibilities and conducted its affairs in accordance with these terms of reference. This report sets the basis for reporting by the Audit and Risk Committee on the oversight responsibilities undertaken by the Committee in the financial year ended 31 March 2018.

3.2.1 Governance of Risk

The Committee is required to fulfil an oversight role on financial reporting, internal financial controls, compliance risks, fraud risks and IT risks as it relates to financial reporting. The Committee has:

- Provided an oversight role and responsibilities in the financial reporting, internal financial controls, compliance risks, fraud risks and IT risks. The committee provided oversight in the preparation of accurate financial reporting and monitored compliance with all applicable legal requirements and accounting standards;
- ensured that the Armscor group has and maintains effective, efficient and transparent systems of financial; risk management, governance and internal control;
- ensured the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the Group;
- ensured corporate accountability and governance and the associated risk in terms of management, assurance and reporting;
- ensured the establishment of the process towards Integrated Reporting and the Combined Assurance for the coordinated assurance efforts for the mitigation of the Corporation's risks by the existing assurance providers within the Corporation.

3.2.2 Internal Control Environment

Although the Board of Directors is accountable for the process of risk management and systems of internal control, these processes are reviewed by the Audit and Risk Committee for adequacy and effectiveness.

The Audit and Risk Committee has regularly reported to the Board on its activities and made recommendations to advise the Board, management and Internal Audit as part of executing its oversight responsibilities.

The Committee is satisfied, based on the information and explanations given by management, Internal Audit and the Auditor-General that an adequate system of internal control is being maintained and it is subject to continuous improvement to ensure that:

- Risks are properly managed and reduced to acceptable levels;
- assets are safeguarded;
- financial and operational information is reliable;
- operations are effective and efficient;
- resources are acquired economically, used efficiently and adequately protected;
- programmes, plans and objectives are achieved;
- quality and continuous improvements are fostered in the organisation's control process; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

3.2.3 Annual Financial Statement

The Audit and Risk Committee has evaluated the annual financial statements of the Armscor group for the year ended 31 March 2018 and considered that they comply, in all material respects, with the requirements of the PFMA (Act No. 1 of 1999), as amended, as well as South African GAAP.

The Committee has reviewed the results of the external audit on the annual financial statements, and accordingly concurs with the opinion expressed. The Committee has also noted that, an unqualified audit opinion has been issued by the Auditor-General for the year under review. In this regard, the Committee would like to express its appreciation to management and Internal Audit for their commitment in strengthening the internal control environment.

The Committee agrees that the adoption of the going concern principle is appropriate in preparing the annual financial statements. The Committee has therefore recommended the adoption of this annual report to the Board of Directors.

3.2.4 Quarterly Reporting

The Audit and Risk Committee has reviewed and satisfied itself on the quarterly reporting submitted to the Committee and on the basis of explanations provided by management to the Committee regarding the accuracy, reliability and adequacy of information contained in these quarterly reports.

The Committee has also reviewed the accounting policies and practices, the quality and timeliness of the financial information made available to the Committee, compliance of the Corporation with the applicable legal and regulatory provisions, information on predetermined objectives included in the annual reporting.

3.2.5 Internal Audit

The Audit and Risk Committee has a responsibility for the appointment of the Chief Audit Executive (CAE) and approving the Internal Audit Charter and ensuring the Internal Audit carries its work in accordance with the plan. The Committee has:

- In concurrence with the CEO, the Audit and Risk Committee appointed the CAE during the year under review. The Committee also ensured that the CAE and Internal Audit are independent by ensuring the CAE reports functionally to the Committee and administratively to the CEO;
- approved the Internal Audit Charter for the financial year 2017/18 and provided oversight of the CAE's independence and objectivity in discharging his duties in accordance with the International Standards of Professional Practice in Internal Auditing and the approved charter. The Committee ensured that the CAE and the Internal Audit is independent and free of influence by management and carried his assurance duties objectively. The Committee empowered the CAE and Internal Audit function to have unrestricted access to information and records for Internal Audit to execute its work without restrictions and impairment in its independence and objectivity;
- ensured that the Internal Audit is sufficiently resourced to perform and deliver its functional duties to meet its approved operational plan;
- approved the risk based internal audit plan for the financial year 2017/18. The Committee evaluated the work of the Internal Audit and is satisfied that the Internal Audit has provided the required assurance on the adequacy and effectiveness of internal control environment in accordance with the approved internal audit plan; and
- provided oversight on the report of the Internal Audit and ensured Internal Audit report on a regular basis and that the matters of material risks reported by the Internal Audit are addressed by management.

3.2.6 External Audit

The Audit and Risk Committee has the oversight responsibility over the external auditors, Auditor-General of South Africa. The following oversight responsibilities were carried by the Committee in discharging its duties relating to the external auditors. The Committee:

- ensured that the external auditors are independent and therefore is satisfied with the independence and objectivity of the external auditors;
- is satisfied with the qualifications and the level of expertise of the external auditors;
- provided oversight over the strategic plan presented by external auditors and the plan was approved in the light of costs, resources and areas of audit considered;
- reviewed the effectiveness of the external auditors, through the fulfilment of the strategic plan and handling of key accounting treatment and disclosures; and

3.2.7 Finance Function

The Audit and Risk Committee is satisfied on the appropriateness of CFO's expertise and experience to meet the responsibilities of the role required of the CFO and Finance function. The Committee has also considered and satisfied itself with the finance function for appropriateness, expertise and adequacy of structure and resources to deliver the financial mandate inherent to the finance function.

3.2.8 Integrated Reporting

The Audit and Risk Committee has provided an oversight role and responsibility over the establishment of the integrated reporting by management. The Committee is satisfied that management's progress on the establishment of the integrated reporting is reasonable.

3.2.9 Combined Assurance

The Audit and Risk Committee has provided an oversight responsibility over the establishment of the Combined Assurance in accordance with the requirements of the King Code. The Committee has provided the monitoring role to ensure that the implementation of the Combined Assurance model is progressing and supported.

MS CE SIMPSON
CHAIRPERSON: AUDIT AND RISK COMMITTEE


ARMSCOR
ARMSCOR
ARMSCOR
ARMSCOR
Sy(m)⁴
Smart Young Mindz
the future of great ideas

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

50 YEARS
Towards a Sustainable Future

4 HUMAN CAPITAL MANAGEMENT

4. HUMAN CAPITAL MANAGEMENT

Human Resources

Armscor continues to make significant progress with regards to a number of key people management interventions. Transformation, succession, skills and knowledge transfer programmes are still major focus areas and, as a result they have started to bear fruits. The transformation targets are progressing well and the effectiveness of the succession plan is seen in the increase in the readiness levels of successors.

Staff composition (Permanent employees)

The staff profile of Armscor, including Armscor Dockyard, as at 31 March 2018 per broad band, race and gender, is indicated below.

ARMSCOR STAFF PROFILE – INCLUDING ARMSCOR, R&D AND DOCKYARD
31 March 2018 (Permanent Employees)

	AFRICAN		COLOURED		INDIANS		WHITES		TOTAL		GRAND TOTAL
BB	M	F	M	F	M	F	M	F	M	F	
GE	3	1	0	0	0	0	2	0	5	1	6
EM	7	3	0	0	1	1	0	0	8	4	12
SU	14	12	3	0	1	0	15	1	33	13	46
MP	106	48	20	4	19	3	132	26	277	81	358
STS	81	104	31	14	7	9	33	57	152	184	336
AS	86	128	194	27	0	5	27	16	307	176	483
OS	80	38	80	19	1	0	4	0	165	57	222
TOTALS	377	334	328	64	29	18	213	100	947	516	1 463
%	25,77	22,83	2,42	4,37	1,98	1,23	14,56	6,84	64.73	35,27	100
%	48,60		26,79		3,21		21,39				
%	78,61						21,39				

The staff profile of Armscor and Research & Development, as at 31 March 2018 per broad band, race and gender, is indicated below.

ARMSCOR STAFF PROFILE – ARMSCOR & R&D
31 March 2018 (Permanent Employees)

	AFRICAN		COLOURED		INDIANS		WHITES		TOTAL		GRAND TOTAL
BB	M	F	M	F	M	F	M	F	M	F	
GE	3	1	0	0	0	0	2	0	5	1	6
EM	7	3	0	0	1	1	0	0	8	4	12
SU	14	10	3	0	1	0	14	1	32	11	43
MP	100	46	15	3	19	3	130	26	264	78	342
STS	76	99	10	13	7	9	23	57	116	178	294
AS	55	108	30	16	0	4	6	15	91	143	234
OS	51	26	4	2	0	0	0	0	55	28	83
TOTALS	306	293	62	34	28	17	175	99	571	443	1 014
%	30,18	28,90	6,11	3,35	2,76	1,68	17,26	9,76	56,31	43,69	100
%	59,07		9,47		4,44		27,02				
%	72,98						27,02				

Employment Equity

A new plan, which focuses on increasing the representation of women in senior management and people with disabilities was developed. The plan commenced on 1 April 2017 and it will run until 31 March 2020.

Workforce Profile Progress 2017/18

The graphs below highlight progress of Employment Equity for the year under review.

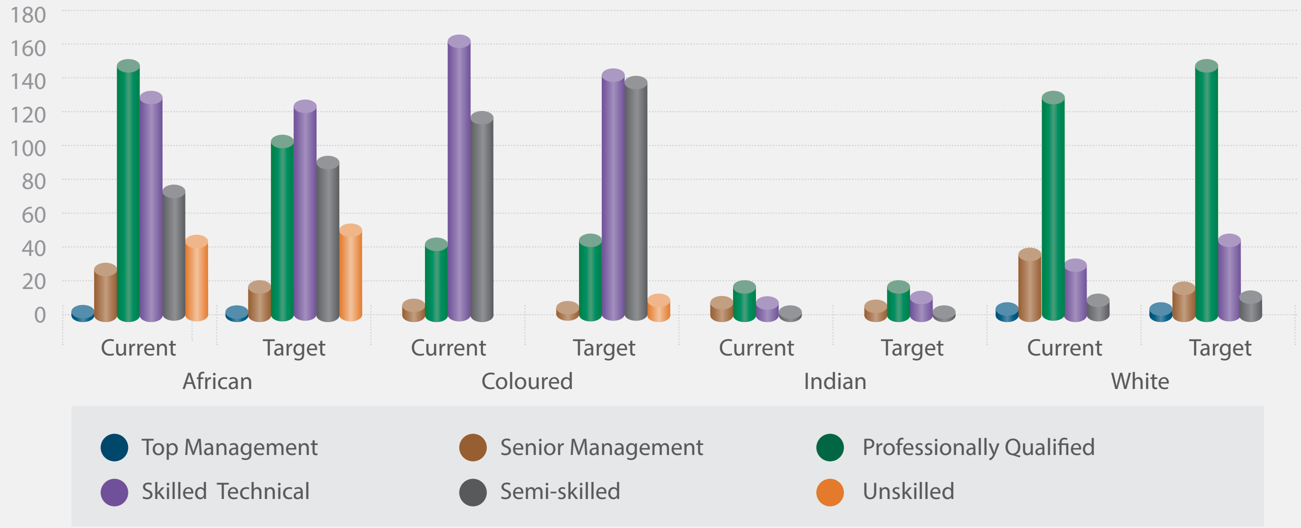

Figure 9: Employment Equity target for men

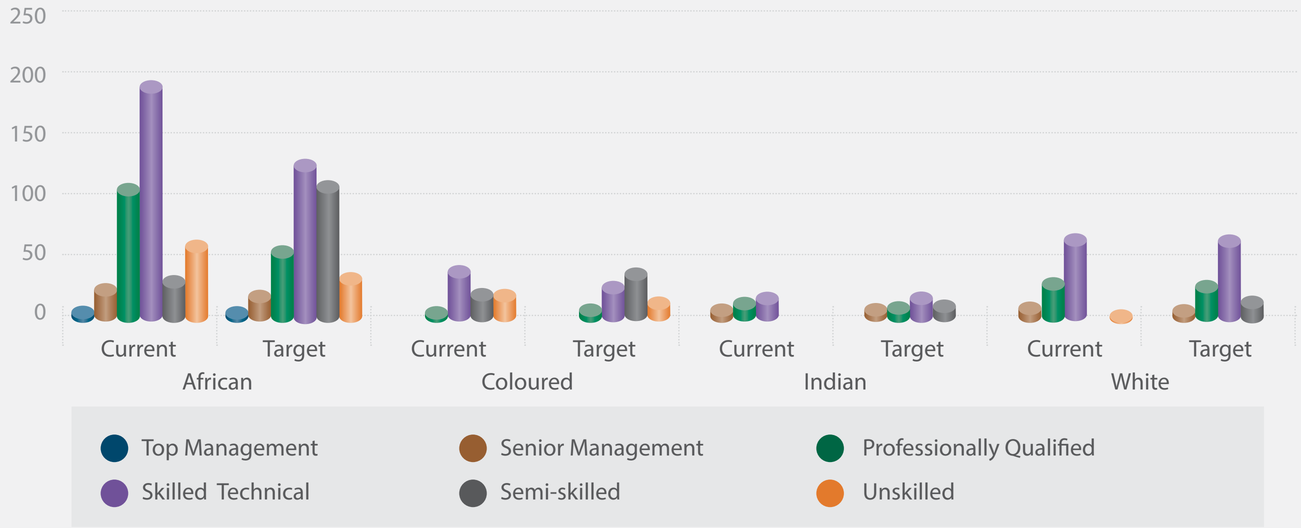

Figure 10: Employment Equity target for women

Figure 11: Employment Equity target for people living with disabilities

Employee Satisfaction Survey

The primary reason for conducting the employee satisfaction survey is to measure the satisfaction level of employees. Measuring the key drivers of employee satisfaction allow management to assess whether Armscor's employees are engaged or disengaged.

The following figure shows an improvement in the employee satisfaction from 61,87% in 2010 to 67,97% in 2018.

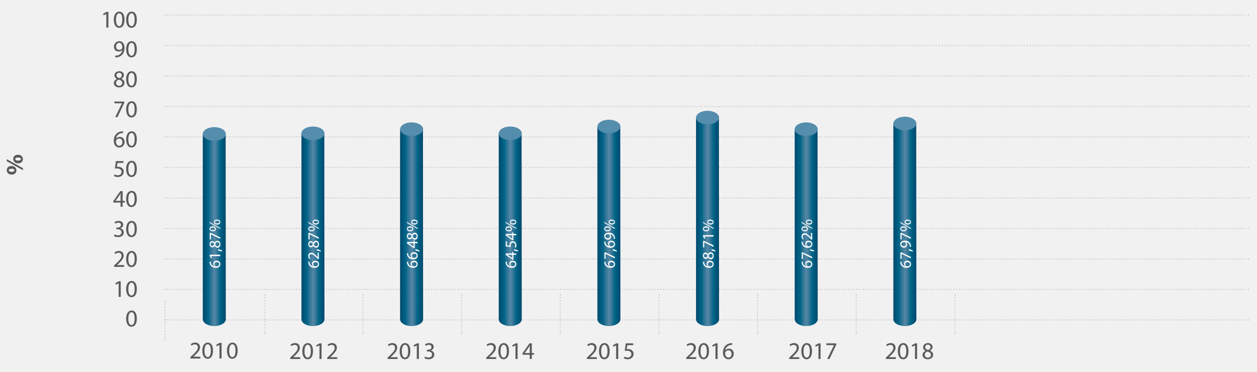

Figure 12: Employee satisfaction 2010 – 2018

The following interventions were implemented to address the identified areas of improvement:

- Structuring of career progression routes and job families.
- Development of Career Management guidelines (Line managers & Employees).
- Development of Remuneration Equity model to address parity related requirements.
- Update of the remuneration and promotion practices.
- Presentation of Management and Leadership Development Programmes.
- Review and alignment of the Succession Planning, Performance Management and Recruitment practices.

Capability Retention and Succession Planning

Capability retention, knowledge transfer and succession planning is a business imperative for Armscor and focuses on business sustainability. As one of Armscor's strategic objectives, it focuses specifically on the development of strategic capabilities required to deal effectively with strategic management and technology demands of the future.

Number of key positions and successors

The following number of key positions and successors has been identified

Number of Key positions	Number of successors
64	74

Annual actions implemented

The capability retention and succession planning process is a cyclical process and is continuously monitored via the implementation of the following actions:

- Identification of successor development gaps and closing the gaps via the drafting of focused multi-year development plans.
- Bi-annual reporting on progress made against the development targets set.
- Equipping both the coach and the mentee with the skills required to successfully execute the process by providing them with training opportunities on mentorship and coaching skills.
- Making divisional managers and coaches accountable for the success of capability retention/business sustainability and adding capability retention and knowledge transfer targets to their performance contracts.

Readiness ratings

A critical part of tracking the success of the programme is the readiness ratings of successors.

The readiness ratings from 2014/15 – 2017/18 shows an improvement of readiness of successors from 14% ready in 2014 to 34% ready in 2018.

Key for readiness	2014/15	2015/16	2106/17	2017/18
1 = 5 years or longer	13%	9%	5,9%	1,4%
2 = 3- 4 years	45%	43%	17,6%	17,8%
3 = 1- 2 years	28%	38%	52,9%	43,8
4 = ready now	14%	11%	23,5%	34,2%

Promotions

The following number of successors were promoted:

Specialist positions –	7
Management positions –	4

Learning and Talent Development

The Learning and Talent development function implemented various development initiatives that seek to develop employees' competencies and address critical and technical scarce skills shortages in the business.

Armscor Management and Leadership Programme

Armscor implemented programmes that aim to ensure continuous development of manager's competencies such as New Managers Programme, and a Management Advanced Programme in partnership with local business schools.

Three employees completed the programme in December 2017 and five are continuing with it.

International Studies

Armscor established partnerships with international universities with the aim of equipping employees with identified specialised skills that are not available in South Africa.

Naval Post Graduate School

Three employees completed their studies at the Naval Post Graduate School in Monterey, California in 2017. Below are the fields of specialisation:

- MSc in Electronic System Engineering
- MSc in Naval and Mechanical Engineering

Cranfield University

Four employees are registered for Masters in Science: Military Aerospace and Airworthiness.

Ecole National De L' aviation Civile

Two employees commenced with studies for the Advanced Masters in Unmanned Aircraft Systems Management programme in January 2018.

Graduate Development Programme

The programme aims to ensure that graduates are developed and are readily available for future roles in the organisation. The duration for the programme is two years. Forty-four candidates participated in the Graduate Development Programme in 2017.

Bursaries

One-hundred-and-seventy bursaries were awarded to undergraduates at various local universities during the period under review. The bursaries are funded through the Armscor Bursary Scheme, the DESUP and the Armscor Defence Industry Bursary Scheme.

Twenty-eight bursary holders completed their qualifications by the end of academic year 2017, and 16 of these bursary holders have been placed in the Graduate Development Programme.

Adult Education and Training Programme

Sixty-one learners were registered for Adult Education and Training (AET) programmes. Twenty-nine are registered for matric and 32 for AET levels 1 – 4.

Dockyard Apprenticeship Programme

Ninety-two apprentices were trained in different trades at Dockyard during the period under review. These trades are offered at the following sections namely: electrical, construction and mechanical.

Out of 92 apprentices, three have qualified as artisans, 40 are preparing for their trade tests and 48 are continuing with the theoretical foundation training. The Manufacturing, Engineering and Related Services SETA awarded Armscor a R1 672 200.00 discretionary grant for implementation of the apprenticeship programme.

In-service Training

Four learners were placed in vocational training for a period of 18 months.

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

50 YEARS
Towards a Sustainable Future

GATEWAY TO DEFENCE SOLUTIONS

5 ANNUAL FINANCIAL REPORT

5. ANNUAL FINANCIAL REPORT

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE ARMAMENTS CORPORATION OF SOUTH AFRICA SOC LTD

Report on the audit of the consolidated financial statements

Opinion

1. I have audited the consolidated financial statements of the Armaments Corporation of South Africa SOC Ltd (Armscor) and its subsidiaries set out on pages 121 to 167, which comprise the consolidated statement of financial position as at 31 March 2018, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Armaments Corporation of South Africa SOC Ltd as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated financial statements section of this auditor's report.

4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

7. The supplementary information set out on pages 117 to 120 does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express and opinion thereon.

Responsibilities of the accounting authority for the consolidated financial statements

8. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the SA Statements of GAAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the consolidated financial statements, the accounting authority is responsible for assessing Armscor'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 accounting authority either intends to liquidate the entity or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated financial statements

10. My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from

material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

11. A further description of my responsibilities for the audit of the consolidated financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Goal 1 – cat 1, defence materiel acquisition excluding strategic defence acquisition and procurement	34
Goal 2 – system support, acquisition and procurement	34 - 35
Goal 3 – schedule placement	35
Goal 4 – management of defence industrial participation	36
Goal 5 – management and execution of defence technology, research, test and evaluation requirements of the department of defence	37
Goal 6 – management and performance against dockyard mandate (SA navy/dockyard performance management in terms of service level agreement with the SA navy agreement)	37 - 38

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

    - Goal 1 – cat 1, defence materiel acquisition excluding strategic defence acquisition and procurement
    - Goal 2 – system support, acquisition and procurement
    - Goal 3 – schedule placement
    - Goal 4 – management of defence industrial participation
    - Goal 5 – management and execution of defence technology, research, test and evaluation requirements of the department of defence

- Goal 6 – management and performance against dockyard mandate (SA navy/dockyard performance management in terms of service level agreement with the SA navy agreement)

Report on the audit of compliance with legislation

Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

18. The material finding on compliance with specific matters in key legislation is as follows:

Expenditure management

19. Effective steps were not taken to prevent irregular expenditure of R12 321 000 disclosed in note 30 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure relates to security services contracts that were extended without obtaining approval from the National Treasury pending finalisation of the transfer of security services to the Department of Defence.

Other information

20. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit and risk committee's report, chief executive officer's report, the chairman's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

21. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

22. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

23. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matter reported below is limited to the significant internal control deficiencies that resulted in the finding on compliance with legislation included in this report.

Financial management

24. Management detected current year irregular expenditure as disclosed in note 30 to the financial statements; however, the review and monitoring processes were not sufficient to prevent these instances of irregular expenditure.

Auditor - General

Pretoria
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated financial statements, and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated 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 entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
   - conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Armscor's ability 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 financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the 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 an entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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

3. 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.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

GROUP: FIVE-YEAR REVIEW (UNAUDITED)

AT 31 MARCH 2018

	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
STATEMENT OF FINANCIAL POSITION					
NET ASSETS					
Property, plant and equipment	1 432,5	1 463,1	1 520,1	1 189,1	1 229,8
Investment property	45,5	72,9	72,9	110,0	110,0
Intangible assets	14,6	12,8	7,1	0,9	1,1
Other non-current assets	-	3,1	-	1,3	-
Other non-current liabilities	(28,8)	(47,3)	(59,3)	(87,2)	(166,6)
Net current assets	407,8	574,3	657,4	604,6	534,3
Financial instruments	368,2	131,4	129,1	747,7	712,5
Post-retirement medical benefit liability	(164,4)	(136,6)	(126,7)	(571,4)	(513,1)
	2 075,4	**2 073,7**	**2 200,6**	**1 995,0**	**1 908,0**
EQUITY AND LIABILITIES					
Ordinary shareholders' interest	**2 075,4**	**2 073,7**	**2 200,6**	**1 995,0**	**1 908,0**
STATEMENT OF COMPREHENSIVE INCOME					
REVENUE					
Sale of goods and services	467,4	403,3	382,4	400,5	345,5
Allocation from the State budget for operating expenditure	1 057,7	860,2	858,7	913,3	870,7
Finance income	71,6	75,0	73,7	82,3	48,8
Rental income	25,5	24,4	55,6	50,5	46,0
Other income	45,5	36,0	41,8	78,5	136,6
	1 667,7	**1 398,9**	**1 412,2**	**1 525,1**	**1 447,6**
TOTAL COMPREHENSIVE (LOSS)/ INCOME	**1,7**	**(126,9)**	**208,5**	**84,2**	**103,3**

GROUP VALUE-ADDED STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

The statement shows the value the Group has created through its acquisition, maintenance and disposal activities aimed at meeting the defence matériel requirements of South Africa as well as trading and investment operations. The statement shows how value was created and how it was disbursed amongst stakeholders, leaving a retained amount, which was re-invested in the Group for the replacement of assets, the development of operations and the maintenance of required capabilities.

	2018	%	2017	%
	Rm		Rm	
Sale of goods and services	467,4		403,3	
Allocation for operating expenditure (government grant)	1 057,7		860,2	
Rental income	25,5		24,4	
Other income	45,5		39,7	
Finance income	71,6		75,0	
Revenue	1 667,7		1 402,6	
Less: Paid to suppliers for materials and services	(481,1)		(436,6)	
TOTAL VALUE ADDED	**1 186,6**	**100**	**966,0**	**100**
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	1 118,0	94	995,2	103
(From)/To government as taxation	(16,9)	-1	14,0	1
TOTAL VALUE ADDED DISTRIBUTED	1 101,1	93	1 009,2	104
Portion of value added reinvested to sustain and expand the business	85,5	7	(43,2)	(4)
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	**1 186,6**	**100**	**966,0**	**100**
TAXATION				
(Received) Paid in taxes (from)/to Government				
• Income tax (received)/paid	(30,5)		1,4	
• Rates and taxes to local authorities	13,6		12,6	
	(16,9)		14,0	
Collected on behalf of, and paid over to government				
• Employees taxation deducted from remuneration paid	252,3		227,6	
• Unemployment Insurance Fund	2,9		2,8	
• Net value added taxation (VAT)	154,8		93,0	
	410,0		**323,4**	

GROUP FINANCIAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2018

The following main aspects concerning the Armscor Group's financial results are apparent from the annual financial statements.

STATEMENT OF FINANCIAL POSITION

Group reserves increased from R1 998,7 million to R2 000,4 million mainly as a result of the surplus during the year. Cash and cash equivalents form a significant part of the assets and are reserved to finance specific future obligations. The Group invested R53,2 million in acquiring plant and equipment to capacitate existing facilities.

STATEMENT OF COMPREHENSIVE INCOME

The net financial result of the Group reflects a surplus of R1,7 million compared to a deficit of R126,9 million in the previous financial year. Total revenue increased with 15,9% while operating expenditure increased by 7,8%. The main contributors to the improved performance is the increase in the government grant received due to baseline cut in the current year being much lower compared to previous financial year. It should be noted that 2017/18 was the final year of the three-year baseline cuts.

COMPARISON WITH BUDGET

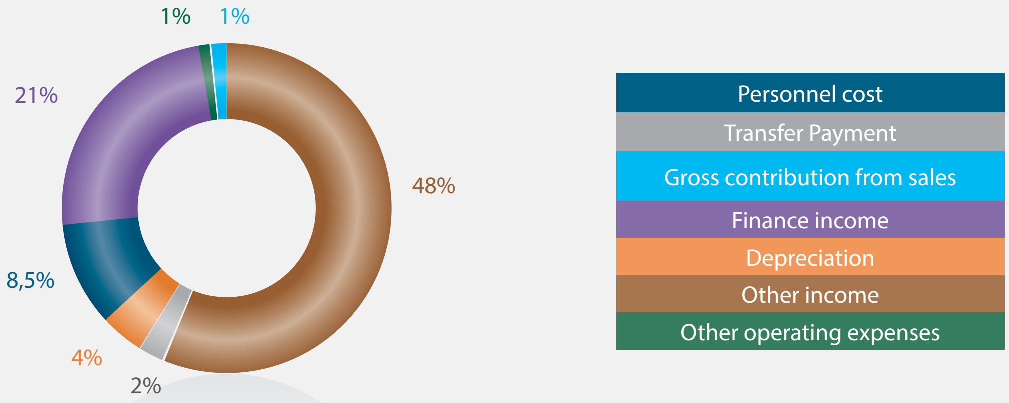

Figure 13: Deviation against budget

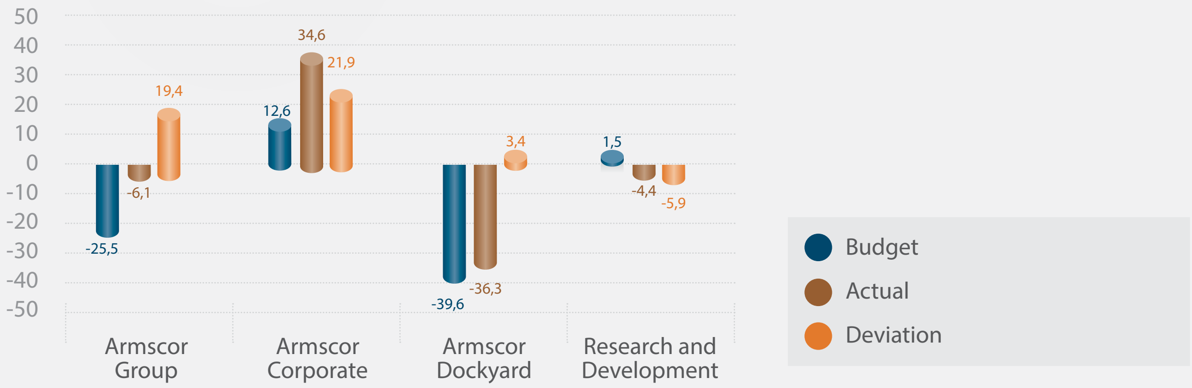

Figure 14: Final Results

If compared with Group budgeted deficit of R25,5 million (excluding the impact of the Armscor post retirement medical obligation), the main contributors of the deviation for the year under review are the following:

Contributors to deviation

Personnel Costs

The net under spending in personnel cost is due to tight control over vacancies to ensure that only those deemed critical for the continued operations of the organisation are filled.

Allocation for operating expenditure/Gross contributions

Allocation for operating expenditure is received to defray the cost of the Group's operations for the year under review, to address additional services to be rendered and to ensure that Armscor's contracted service delivery to the Department of Defence (DOD), in terms of the Service Level Agreement (SLA), is effectively and efficiently met. The transfer payment of R1 057,7 million includes R9,8 million that was recognised by the Dockyard and R1,5 million recognised by facilities from income that was deferred in previous years.

Other Income

The decrease in other income compared to budget was mainly due to property projects that were cancelled.

Other Operating Expenses

The cost savings measures implemented resulted in reduced operational costs as compared to the budget.

Depreciation

The depreciation charge was more than the budget due to revision of estimated useful lives of assets of the Group.

Finance Income

The increase in finance income compared to budget was mainly due to more cash being available for investment resulting from lower capital purchases than planned for.

STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2018

	NOTES	2018 Rm	2017 Rm
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	1 432,5	1 463,1
Investment property	3	45,5	72,9
Intangible assets	4	14,6	12,8
Investment in a joint venture	5	-	3,1
Financial instruments	15	368,2	131,4
		1 860,8	**1 683,3**
CURRENT ASSETS			
Assets held for sale	2	0,4	0,4
Inventories	7	8,4	29,6
Trade and other receivables	8	153,7	162,7
Cash and short term deposits	9	628,7	764,9
Taxation	14	-	26,0
		791,2	**983,6**
TOTAL ASSETS		**2 652,0**	**2 666,9**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Ordinary share capital	10	75,0	75,0
Non-distributable reserves		2 000,4	1 998,7
ORDINARY SHAREHOLDERS INTEREST		**2 075,4**	**2 073,7**
LIABILITIES			
NON-CURRENT LIABILITIES			
Post-retirement medical benefit liability	6	164,4	136,6
Deferred tax	14	5,2	5,0
Deferred income	11	23,6	42,3
		193,2	**183,9**
CURRENT LIABILITIES			
Trade and other payables	12	188,1	251,8
Provisions	13	124,9	121,2
Deferred income	11	64,6	36,3
Taxation	14	5,8	-
		383,4	**409,3**
TOTAL LIABILITIES		**576,4**	**593,2**
TOTAL EQUITY AND LIABILITIES		**2 652,0**	**2 666,9**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	NOTES	GROUP 2018 Rm	GROUP 2017 Rm
Revenue	16	467,4	403,3
Cost of sales	17	(160,5)	(136,2)
GROSS PROFIT	18	**306,9**	**267,1**
Other operating income	19	71,0	60,4
Allocation for operating expenditure (Government grant)	20	1 057,7	860,2
Operating expenses	21	(1 503,9)	(1 394,8)
OPERATING LOSS	22	**(68,3)**	**(207,1)**
Investment revenue	23	71,6	75,0
Share of profit in joint venture	5	-	6,5
PROFIT/(LOSS) BEFORE TAX		**3,3**	**(125,6)**
Taxation	14	(1,6)	(1,3)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR	24	**1,7**	**(126,9)**
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		-	-
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		**1,7**	**(126,9)**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	CAPITAL	PROMOTION RESERVE	BUILDING MAINTENANCE RESERVE	UPGRADING RESERVE	INSURANCE RESERVE	RESERVE	RESERVE	EQUITY
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
Balance as previously stated at 31 March 2016	**75,0**	**12,0**	**22,6**	**15,0**	**14,7**	**1 448,5**	**612,8**	**2 200,6**
Restatement	**-**	**-**	**-**	**-**	**-**	**(23,6)**	**23,6**	**-**
Restated balance at 31 March 2017	**75,0**	**12,0**	**22,6**	**15,0**	**14,7**	**1 424,9**	**636,4**	**2 200,6**
Changes in equity								
Loss after tax	-	-	-	-	-	-	(126,9)	(126,9)
Revaluation gain	-	-	-	-	-	-	-	-
Transfer to/(from) reserves	-	(4,2)	-	-	(2,7)	(24,2)	31,1	-
Total changes	-	(4,2)	-	-	(2,7)	(24,2)	(95,8)	(126,9)
Balance at 31 March 2017	**75,0**	**7,8**	**22,6**	**15,0**	**12,0**	**1 400,7**	**540,6**	**2 073,7**
Changes in equity								
Profit after tax	-	-	-	-	-	-	1,7	1,7
Transfer to/(from) reserves	-	0,7	-	-	(3,3)	(24,2)	26,8	-
Total changes	-	0,7	-	-	(3,3)	(24,2)	28,5	1,7
Balance at 31 March 2018	**75,0**	**8,5**	**22,6**	**15,0**	**8,7**	**1 376,5**	**569,1**	**2 075,4**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	NOTES	GROUP 2018 Rm	GROUP 2017 Rm
OPERATING ACTIVITIES			
Cash receipts from customers		1 584,7	1 341,9
Cash paid to suppliers and employees		(1 538,4)	(1 485,0)
Cash generated from operations	25	46,3	(143,1)
Income tax received/(paid)		30,5	(1,4)
Interest income		71,6	75,0
Finance costs		(0,6)	(0,5)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**147,8**	**(70,0)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	2	(53,2)	(26,5)
Proceeds from sale of property, plant and equipment		0,4	-
Purchase of other intangible assets	4	(3,5)	(6,8)
Increase in investments		(232,2)	(2,5)
Dividends received		4,5	4,9
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(284,0)**	**(30,9)**
TOTAL CASH MOVEMENT FOR THE YEAR		(136,2)	(100,9)
CASH AT THE BEGINNING OF THE YEAR		764,9	865,8
TOTAL CASH AT END OF THE YEAR	9	**628,7**	**764,9**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2018

1. MANDATE

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practises (GAAP) and the Companies Act of South Africa, 71 of 2008. The financial statements have been prepared on the historical cost basis except for some financial instruments and land and buildings which are measured at fair value and incorporate the principal accounting policies set out below. They are presented in South African Rands and all values are rounded to the nearest millions unless otherwise indicated.

Armscor receives its mandate for the period under review from the Armaments Corporation of South Africa, Limited Act (Act No 51 of 2003) and the Armaments Corporation of South Africa, Limited amendment Act (Act No 16 of 2005), which came into effect from 8 May 2006 by proclamation 20 published in Government Gazette 28779 of 5 May 2006 in terms of which the Corporation is empowered to meet:

- the defence matériel requirements of the DOD effectively, efficiently and economically; and
- the defence technology, research, development, analysis, test and evaluation requirements of the DOD effectively, efficiently and economically.

These Acts furthermore provides that Armscor must adhere to accepted corporate governance principles, best business practices and South African Statements of GAAP within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

1.1 FINANCIAL POLICY

Activities are financed as follows:

a) Armscor's operating funds

Armscor's operating funds are obtained via the defence budget, and together with interest earned thereon and contribution generated from sales, are utilised to finance operating expenditure, the acquisition of fixed assets and expenditure for the creation and maintenance of facilities and services.

b) Operating capital and fixed capital of the Group

Operating capital and fixed capital requirements of the Group are financed from own income generated and additional funding received from the DOD if required.

c) Procurement of armaments

Armaments purchases and maintenance are financed by means of withdrawals from the Special Defence Account in terms of the Defence Special Account Act (Act No 6 of 1974, as amended) and the General Defence Account. Strategic Defence Packages are financed wholly or partially by means of drawdowns against credit facilities supplied by National Treasury.

1.2 ACCOUNTING POLICY

The Corporation's year end is the same as its subsidiaries except for the joint venture, which has a February year end. The principal accounting policies adopted by the Group are set out below: These accounting policies are consistent with the previous period.

1.3 CONSOLIDATION

Basis of consolidation

The Group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of the Corporation and its subsidiaries. Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or the power to exercise control so as to obtain benefits from their activities.

Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included for the duration in which the Group exercises control over the subsidiary. All inter-company and inter-divisional transactions and resulting profits and losses between the Group companies are eliminated on consolidation. The Corporation carries its investments in subsidiaries at cost less accumulated impairment losses in the financial statements.

1.3.1 Significant Accounting Judgements, Estimates and Assumptions

Judgements

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements. Significant judgements include:

a) Post-retirement medical benefits

The cost of defined post-retirement medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

b) Impairment of financial assets

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

c) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non financial assets at each reporting date. When value in use calculations are undertaken, management estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate to calculate the present value of those cash flows.

d) Provisions

Management determined an estimate based on the best available information.

1.3.2 Property, Plant and Equipment

The cost of an item of property, plant and equipment is recognised as an asset 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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The useful life and depreciation method of each asset is reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

a) Land and buildings

Land is stated at fair value and is not depreciated. Buildings are stated at fair value less accumulated depreciation and accumulated impairment. Depreciation is calculated on a straight line basis over the useful life of the buildings over periods that vary between three and fifty years.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation surplus in equity.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

b) Plant and equipment

Plant and equipment includes plant, machinery, equipment, office equipment, furniture, computers, vehicles and vessels.

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment. The cost of replacing part of such plant and equipment is capitalised when that cost is incurred and the recognition criteria is met. Depreciation is calculated on a straight line basis over the expected useful lives on periods that vary as follows:

Plant, machinery and equipment	5 - 15 years
Office equipment, furniture and computers	2 - 20 years
Vehicles and vessels	5 - 15 years

1.3.3 Investment Property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in profit or loss for the period in which it arises.

There are no property interests held under operating leases, which are recognised as investment property.

1.3.4 Intangible Assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Research and Development costs
Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognising of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

a) Patents
Patents have been granted for periods ranging from 10 to 15 years respectively.

b) Computer software
Computer software is amortised on periods ranging from two to eight years.

1.3.5 Investment in joint venture

A joint venture is a joint arrangement in which parties have joint control with rights to the net assets of the arrangement.

The investment in joint venture is accounted for under the equity method in the Group financial statements. Under the equity method, on initial recognition the investment in joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the joint venture after the date of acquisition. Distributions received from the joint venture reduce the carrying amount of the investment.

The most recent available financial statements of the joint venture is used in applying the equity method. When the financial statements of the joint venture used in applying the equity method are prepared as of a date different from that used by the Group, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the Group's financial statements.

If the Group's share of losses of the joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognising its share of further losses and will carry the investment in the joint venture at zero. When the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The Group will discontinue the use of the equity method from the date when its investment ceases to be a joint venture as follows:

- If the investment becomes a subsidiary, the Group shall account for its investment in accordance with IFRS 3 Business Combinations.
- If the retained interest in the former joint venture is a financial asset, the Group measures the retained interest at fair value. The Group recognises in profit or loss any difference between:
  - the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture; and
  - the carrying amount of the investment at the date the equity method was discontinued.
- When the Group discontinues the use of the equity method, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

If the Group's ownership interest in the joint venture is reduced, but the Group continues to apply the equity method, the Group reclassifies, to profit or loss, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

1.3.6 Inventories

Inventories are stated at the lower of cost (purchase cost) and net realisable value. Raw materials are calculated using the first in, first out method, except in the case of Hazmat Protective Systems where it is calculated at weighted average. Write downs to net realisable value and inventory losses are expensed in the period in which the write down or losses occur.

Finished goods and work in progress are stated at actual cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

1.3.7 Non Distributable Reserves

All reserves are considered to be non distributable. The full share capital and reserves are required for the total net capital requirement of the Group. Cash is therefore retained to meet future commitments, and is consequently not available for the distribution of dividends.

a) Capital and building maintenance reserve

The reserve was established for comprehensive upgrading and replacement of obsolete capital equipment and maintenance of major building systems.

b) Computer upgrading reserve

The purpose of this reserve is for the upgrading and replacement of obsolete, outdated computer technology.

c) Marketing promotion reserve

The reserve was established to supplement the financing of exhibition costs to promote the local defence industry, which is part of Armscor's mandate, but which is not provided for via the transfer payment from the DOD.

d) Internal Insurance Reserve

Self-insurance has been instituted where the cost-to-benefit relationship exceeds the risk and the incidence of losses is of a minor and infrequent nature. Self-insured risks are reviewed annually to ensure cover is adequate and an amount is held in an internal insurance fund to cover these risks.

e) Revaluation reserve

The revaluation surplus in equity is related to land and buildings and is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

1.3.8 Foreign Currency Conversion

Transactions and balances

A foreign currency transaction is recorded, on initial recognition in rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period, foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in rand by applying to the foreign currency amount the exchange rate between the rand and the foreign currency at the date of the cash flow.

1.3.9 Revenue Recognition

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.3.10 Other Income

a) Interest income
Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

b) Rental income
Rental income is accounted for on a straight line basis over the lease terms of ongoing leases.

c) Government grant
Government grant is recognised when there is reasonable assurance that:

- the Group will comply with the conditions attaching to them; and
- the grant will be received.

Government grant is recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position by setting up the grant as deferred income.

Grant related to income is presented as a credit in the profit or loss (separately).

Armscor's operating funds are obtained via the defence budget and recognised as a grant via revenue (transfer payment) as and when received and together with interest earned thereon are utilised to finance operating expenditure, the acquisition of fixed assets and expenditure for the creation of facilities and services.

Secondary grants received, based on Memorandums of Agreement with the DOD, for specific services are recognised as revenue as and when the conditions of receipt thereof has been fulfilled and are included in sale of goods and services.

d) Dividend income
Dividends are recognised in profit or loss when the Group's right to receive payment has been established.

1.3.11 Insurance and Risk Management

The insurance and risk management policies adopted by the Armscor Group are aimed at obtaining sufficient cover at the minimum cost to protect its asset base, earning capacity and legal obligations against unacceptable losses.

All fixed assets are insured at current replacement value. Risks are identified and insured while paying specific attention to the specialised nature of the Group's various activities and exposures. Self-insurance has been instituted where the cost-to-benefit relationship exceeds the risk and the incidence of losses is of a minor and infrequent nature. Self-insured risks are reviewed annually to ensure cover is adequate.

1.3.12 Financial Instruments

Recognition and measurement
Financial instruments are initially recognised on the statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value, which includes directly attributable transaction cost in the case of financial assets and liabilities not at fair value through profit and loss. Subsequent measurement for each category is specified in the sections below.

Derecognition of financial assets and financial liabilities
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 rights to receive cash flows from the asset have expired. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

The resulting difference between the carrying value on the derecognition of the financial instrument and the amount received or paid is taken to profit or loss.

Financial assets
The Group categorises its financial assets in the following categories: loans and receivables and fair value through profit or loss. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
After initial recognition, such assets are carried at amortised cost, using the effective interest rate method, less accumulated impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

The Group has classified the following financial assets as loans and receivables:

a) Trade and other receivables
Trade and other receivables comprise all trade and non-trade debtors. Short-duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

b) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held on call, funds held in trust accounts and investment instruments, all of which are readily convertible to cash, available for use by the Group unless otherwise stated and are subject to an insignificant risk of change in value.

c) Other loans

Other loans consist of employee loans. These loans are interest bearing over periods that vary between one and 12 months in terms of conditions of employment.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial liabilities

Financial liabilities consist of trade and other payables. After initial recognition, financial liabilities are recognised at amortised cost, using the effective interest rate method, finance costs on financial liabilities at amortised cost are expensed in profit or loss in the period in which they are incurred using the effective interest rate method. In addition, gains and losses on these financial liabilities are recognised in profit or loss when the liability is derecognised.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when it becomes due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value. Subsequently, the contract is measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18, unless it was designated as at fair value through profit or loss at inception and measured as such. Financial guarantees are derecognised when the obligation is extinguished, expire or transferred. The Group currently does not recognise any financial guarantee contracts as, in the opinion of the directors; the possibility of loss arising from these guarantees is remote.

Impairment of financial assets

The Group assesses at each statement of financial position date whether objective evidence exists that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is objective evidence that an impairment loss has been incurred on a financial asset, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The amount of the impairment shall be recognised in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the related provision for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

For certain categories of loans and receivables, provisions for impairment are recognised based on the following considerations:

a) Trade and other receivables

For trade and other receivables, a provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Indicators of impairment include long overdue accounts, significant financial difficulties of the debtors and defaults in payments.

1.3.13 Provisions and Contingencies

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 economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the profit or loss, net of any reimbursement.

The Group has the following provisions at year end:

a) Performance remuneration

The payment of performance remuneration is subject to the Groups' achievement of set performance criteria. The Group uses the Balanced Score Card method for evaluating individual performance. Performance remuneration is based proportionally on the individual performance as measured and expressed by the individual's performance score and also on Group department's performance as measured and expressed by their calculated performance score.

b) Provision for leave

Provision is calculated on leave days outstanding at the end of the year multiplied by remuneration rate based on the applicable remuneration package of each employee.

c) Contingencies

Contingent assets are disclosed when there is a possible asset, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, which are not wholly within the Group's control. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

Contingent liabilities are disclosed when there is a possible obligation that arises from the past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, which are not wholly within the Group's control, or it is not possible that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised, but reflected in a separate note to the financial statements.

1.3.14 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios at a), c) or d) and at the date of renewal or extension period for scenario b).

Leases of assets to the Group under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

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

Income for leases is disclosed under revenue in profit or loss.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. Any contingent rents are expensed in the period they are incurred.

1.3.15 Impairment of Tangible and Intangible Assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.3.16 Fruitless, Wasteful Expenditure and Irregular Expenditure

Fruitless and wasteful expenditure relate to expenditure which was made in vain and which would have been avoided had reasonable care been exercised. Irregular expenditure relates to expenditure incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

1.3.17 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 classified as equity.

1.3.18 Employee Benefits

a) Short term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

b) Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Group's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

c) Retirement benefits

The Group contributes towards and operates the Armscor Defined Contribution Pension Fund and the Armscor Provident Fund, which offer benefits based on the contributions of and on behalf of every member, as well as on investment yields.

The Group also provides post retirement health care benefits to its retirees. The entitlement to post retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

Actuarial gains or losses in respect of defined benefit plans are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

1.3.19 Taxation

Current taxation

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for the previous year.

Deferred taxation

Deferred taxation is provided using the financial position liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised in the income statement except to the extent that it relates to a transaction that is recorded directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.3.20 Discontinued Operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

1.3.21 Restatements

A portion of Dockyard direct labour costs incurred to generate commercial revenue was reclassified to cost of sales during the current and comparative financial years. The reclassification has R Nil value impact on loss generated in comparative financial years. The comparative amounts have been restated accordingly as follows:

	Rm		
	After adjustment	Adjustment	Before adjustment
Increase in Cost of Sales	136,2	0,9	135,3
Decrease in Employee costs	993,0	-0,9	993,9

During the 2017/18 financial year, a misstatement relating to prior years consolidated financial statement was noted. The transfers from the revaluation reserve balance to the retained income reserve balance were not recognised correctly in the Group financial statements during the 2013/14, 2014/15 and 2016/17 financial year ends.

The restatement has an R Nil value impact to the total reserve balance reflected in the group financial statements and the Group's comparative amounts have been restated accordingly as follows:

	Rm		
	After adjustment	Adjustment	Before adjustment
Decrease in Revaluation Reserve	1 400,7	-31,4	1 432,1
Increase in General Reserve	540,6	31,4	509,2

1.3.22 Reporting Framework

Statements of GAAP were withdrawn by the Accounting Practices Board on 1 December 2012.

National Treasury instructed that those Government Business Enterprises that apply Statements of SA GAAP, as an interim measure, should continue to apply Statements of GAAP (as issued at 1 April 2012) until the Accounting Standards Board (ASB) has undertaken more extensive research to identify the most appropriate reporting framework.

The ASB has subsequently issued Directive 12 in August 2015. This Directive gives guidance on the selection of an appropriate reporting framework by public entities. Paragraph 11 of Directive 12 provides criteria for determining the appropriate reporting framework, which will either be International Financial Reporting Standards (IFRS) or Generally Recognised Accounting Practice (GRAP). Paragraph 25 of the Directive prescribes that the application of an appropriate reporting framework is for periods commencing on or after 1 April 2018.

Statements of GAAP are drawn from IFRSs, International Accounting Standards (IASs), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRICs and SICs). Section 56 of the Financial Management of Parliament Act (Act No 10 of 2009) requires that Parliament prepares its financial statements in accordance with standards of generally recognised accounting practice. "Standards of generally recognised accounting practice" in that Act means an accounting practice complying with the standards approved by the Minister of Finance on the advice of the ASB.

The effect of the APB not adopting any standards or amendments after May 2011 means that the following pronouncements or amendments are not included in the GAAP Reporting Framework:

(a) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and I*FRS 13 Fair Value Measurement* and any consequential amendments to existing IFRSs or IASs as a result of issuing these IFRSs.
(b) IAS 27 *Separate Financial Statements* (issued in May 2011) and IAS 28 *Investments in Associates and Joint Ventures* (issued in May 2011).
(c) IAS 19 *Employee Benefits* as revised in June 2011.
(d) Amendments to existing pronouncements *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) issued in June 2011.
(e) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* issued in October 2011.
(f) Amendments to existing pronouncements *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7) issued in December 2011.
(g) Amendments to existing pronouncements *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) issued in December 2011.
(h) Amendments to existing pronouncements *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) issued in December 2011.
(i) Amendments to existing pronouncements *Government Loans* (Amendments to IFRS 1) issued in March 2012.
(j) *Annual Improvements to IFRSs* (2009 - 2011 Cycle) issued in May 2012.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

2. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	PLANT, MACHINERY & EQUIPMENT	OFFICE EQUIPMENT, FURNITURE & COMPUTERS	VEHICLES & VESSELS	CAPITAL ASSETS UNDER DEVELOPMENT	TOTAL
	2018						
GROUP	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Cost	433,7	982,7	138,7	183,5	78,3	5,4	1 822,3
Accumulated depreciation	-	(97,8)	(93,5)	(146,6)	(51,9)	-	(389,8)
Carrying value as at 31 March 2018	**433,7**	**884,9**	**45,2**	**36,9**	**26,4**	**5,4**	**1 432,5**
Current year movements:							
Balance at the beginning of the year	433,7	929,8	48,3	37,3	14,0	-	1 463,1
Additions	-	3,8	9,6	16,2	18,2	5,4	53,2
Disposals	-	-	-	(0,1)	-	-	(0,1)
Depreciation	-	(48,7)	(12,7)	(16,5)	(5,8)	-	(83,7)
Carrying value as at 31 March 2018	**433,7**	**884,9**	**45,2**	**36,9**	**26,4**	**5,4**	**1 432,5**

	2017						
GROUP	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Cost	433,7	978,9	129,4	169,1	61,4	-	1 772,5
Accumulated depreciation	-	(49,1)	(81,1)	(131,8)	(47,4)	-	(309,4)
Carrying value as at 31 March 2017	**433,7**	**929,8**	**48,3**	**37,3**	**14,0**	**-**	**1 463,1**
Current year movements:							
Balance at the beginning of the year	433,7	971,1	53,5	43,6	18,2	-	1 520,1
Additions	-	6,1	8,5	10,9	1,0	-	26,5
Assets held for sale						-	
Disposals	-	-	(0,8)	(0,1)	-	-	(0,9)
Revaluation						-	
Depreciation	-	(47,4)	(12,9)	(17,1)	(5,2)	-	(82,6)
Carrying value as at 31 March 2017	**433,7**	**929,8**	**48,3**	**37,3**	**14,0**	**-**	**1 463,1**

2. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP	
	2018	2017
	Rm	Rm
Depreciation		
Gross depreciation	86,4	84,2
Less: Change in the estimated useful life	(2,7)	(1,6)
	83,7	**82,6**

In line with the requirements of IAS 16 the Group reviewed the useful life, residual values and method of depreciation for all assets still in use. Based on the latest available and reliable information there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R2,7 million (2017: R1,6 million decrease).

Other matters

Included in the Group's value of plant, machinery and equipment are assets at contractors with a cost of R3,9 million (2017: R3,9 million) that are fully depreciated. These assets are no longer in use.

Land and buildings were fair valued for the first time on 31 March 2013. Had these assets not been fair valued their carrying values would have been as follows:

Land:	R12,7 million (2017: R12,7 million)
Buildings:	R120,6 million (2017: R120,4 million)

Included in buildings are:

IMT building erected on leasehold premises with a net book value of R44,5 million (2017: R45,2 million). The leasehold premises comprises a portion in extent 1,4475 ha of Erf 3779 in Simon's Town, which is leased from the Department of Public Works.

The Paardefontein building erected on land owned by the state with a net book value of R3,1 million (2017: R3,3 million). The premises comprise a portion in extent 51,3902 ha of portion 6 and 7 of the farm Paardefontein 282, registration division JR, City of Tshwane Metropolitan Municipality, which is registered in the name of the state.

Assets with a carrying amount of R0,4 million (2017: R0,4 million) at year end are held for disposal. The process of disposal is in place and will be disposed within the next 12 months. The assets held for sale are residential properties held by Armscor's Research and Development at Prieska, Northern Cape. These properties will be sold to potential buyers, with the lessees having the first option to buy.

3. INVESTMENT PROPERTY

	LAND 2018
GROUP	**Rm**
Fair value	45,5
Fair value as at 31 March 2018	**45,5**
Balance at the beginning of the year	72,9
Fair value adjustment	(27,4)
Fair value as at 31 March 2018	**45,5**

	2017
GROUP	**Rm**
Fair value	72,9
Fair value as at 31 March 2017	**72,9**
Balance at the beginning of the year	72,9
Fair value adjustment	-
Fair value as at 31 March 2017	**72,9**

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2018. The appraiser holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The land was fair valued using the Comparable Sales Method. Expenditure incurred relating to land amounted to R Nil (2017: Nil).

4. INTANGIBLE ASSETS

	COMPUTER SOFTWARE	INTANGIBLE ASSETS UNDER DEVELOPMENT	TOTAL
		2018	
GROUP		Rm	Rm
Cost	13,1	8,0	21,1
Accumulated amortisation	(6,5)	-	(6,5)
Carrying value as at 31 March 2018	**6,6**	**8,0**	**14,6**
Current year movements:			
Balance at the beginning of the year	5,8	7,0	12,8
Additions	2,5	1,0	3,5
Amortisation	(1,7)	-	(1,7)
Carrying value as at 31 March 2018	**6,6**	**8,0**	**14,6**

		2017	
GROUP		Rm	Rm
Cost	10,7	7,0	17,7
Accumulated amortisation	(4,9)	-	(4,9)
Carrying value as at 31 March 2017	**5,8**	**7,0**	**12,8**
Current year movements:			
Balance at the beginning of the year	4,0	3,1	7,1
Additions	2,9	3,9	6,8
Amortisation	(1,1)	-	(1,1)
Carrying value as at 31 March 2017	**5,8**	**7,0**	**12,8**

Contractual commitments for acquisition of intangible assets R27,0 million (2017: R34,1 million).

5. INVESTMENT IN A JOINT VENTURE

Armscor entered into a 33,3% partnership on 30 August 1999 with the South African Aerospace, Maritime and Defence Industries Association (AMD) and the Commercial Aviation Association of Southern Africa (CAASA). The partnership's main business is hosting of the Africa Aerospace and Defence air show which takes place bi-annually.

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. The following amounts represent the assets, liabilities, income and expenses of AAD.

Summarised statement of financial position	**2018**	**2017**
	Rm	**Rm**
Assets	14,8	10,7
Non-current assets	0,1	0,1
Current assets, including cash and cash equivalents of R1,6 million (2017: R6,7 million)	14,7	10,6
Liabilities	18,4	0,7
Current liabilities, including financial liabilities of R1,4 million (2017: R0,7 million)	18,4	0,7
Equity	(3,6)	10,0
Group proportionate ownership	33,3%	33,3%
Group carrying amount of investment	-	3,1
Summarised statement of profit or loss		
Revenue	-	62,5
Cost of sales	-	(8,3)
Other income	0,2	0,9
Operating expenditure	(5,5)	(33,5)
Investment revenue	0,1	0,6
Profit for the year	(5,2)	22,2
Group proportionate ownership	33,3%	33,3%
Share of profits	-	6,5
Partner disbursement received for the year	3,1	3,4

There are no contingent liabilities relating to the Group's interest in the Joint Venture, other than those accounted for in the Joint Venture itself.

6. RETIREMENT BENEFITS

6.1 Armscor defined contribution pension fund and provident fund

6.1.1 Pension and provident schemes

The Group contributes towards and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard for the remaining six members is R Nil (2017: R Nil) as the pensioners account in the pension fund is sufficiently funded.

	GROUP	
	2018 Rm	2017 Rm
The amount of contributions to the above scheme	70,7	65,6

6.1.2 Government Employees Pension Fund - Dockyard

The Group contributes towards the Government Employees Pension Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields.

	GROUP	
	2018 Rm	2017 Rm
The amount of contributions to the above scheme	15,4	12,5

6.2 Post-retirement medical benefits

The IAS19 valuation of the Group's post-employment benefits was carried out at 31 March 2018. Based on the latest projection performed at 31 March 2018 the present value of the obligation is R164,4 million (2017: R136,6 million). Based on the projection performed at 31 March 2018 financial assets held aside specifically for this purpose are in excess of the accrued liability. The financial assets held aside are R212,3 million (2017: R170,3 million). During 2015/16 financial year, Armscor settled some of its financial liabilities relating to the defined medical benefit, the amount settled was R605,6 million. This resulted in a decrease of both the financial liability and financial assets.

Armscor does not have any further obligation for post-retirement medical benefits towards those members who accepted the settlement, except for the monthly allowances being paid to active members while remaining in Armscor's service.

GROUP	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Present value of funded obligations	237,5	218,6	121,9	718,6	607,5
Net obligation	237,5	218,6	121,9	718,6	607,5
Unrecognised actuarial gains/(losses)	(73,1)	(82,0)	4,8	(147,2)	(94,4)
Net liability in statement of financial position	**164,4**	**136,6**	**126,7**	**571,4**	**513,1**

Figures above include Armscor's Corporate, Research & Development and Dockyard (appointed under Armscor's conditions of employment).

6.2.1 Post-retirement medical benefits (Excluding Armscor Dockyard Personnel transferred from the South African Navy)

The Group currently provides post retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

Reconciliation of the present value of the funded obligations (Group – excluding Dockyard)

	2018 Rm	2017 Rm
Opening balance	109,4	102,4
Current service cost	1,9	1,8
Interest cost	8,5	8,9
Expected employer benefit payments	(2,5)	(3,2)
Expected closing balance	117,3	109,9
Actuarial (gain)/loss	(1,8)	(0,5)
Actual closing balance	**115,5**	**109,4**

	GROUP	
	2018 Rm	2017 Rm
Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss		
Opening balance	109,4	102,4
Expense recognised in employee remuneration costs	8,6	10,2
Employer benefit payments	(2,5)	(3,2)
	115,5	**109,4**
Net benefit expense (recognised in employee remuneration costs)		
Current service cost	1,9	1,8
Interest cost	8,5	8,9
Actuarial gain recognised	(1,8)	(0,5)
	8,6	**10,2**

The main actuarial assumptions are:

	2018	2017
Discount rate	9,0%	9,9%
Health care cost inflation	8,0%	8,8%
CPI inflation	6,0%	6,8%
Average retirement age	63	63

A one percentage change in the assumed rate would have the following effects for the Group:

Sensitivity on defined benefit obligation	**-1%**	**Base**	**+1%**
Healthcare inflation	82,4	94,0	108,2
Discount rate	108,2	94,0	82,6
Sensitivity results from previous valuation	**-1%**	**Base**	**+1%**
Healthcare inflation	75,6	86,4	99,6
Discount rate	99,6	86,4	75,8

6.2.2 Post-retirement medical benefits for Armscor Dockyard personnel transferred from the SA Navy

The Group also provides post-retirement health care benefits to the Dockyard retirees. The entitlement to post retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

The IAS19 valuation of the Dockyard's post-employment benefits was carried out on 31 March 2018. This actuarial valuation of the employer's liability as at 31 March 2018 arises as a result of post-employment health care benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed at 31 March 2018 the accrued liability exceeds the cash held aside specifically for this purpose. The cash held aside is R42,1 million (2017: R38,9 million).

	GROUP	
	2018	**2017**
	Rm	**Rm**
The cash held aside specifically for this purpose at 31 March 2018 is in excess of the accrued liability and is summarised below:		
Present value of the unfunded obligation	48,9	27,2
Net obligation	48,9	27,2
Less: Cash received	(42,1)	(38,9)
Net liability/(assets) as at 31 March 2018	**6,8**	**(11,7)**
A projection of results of the valuation as at 31 March 2018 to 31 March 2019 is set out below:		
Accrued liability as at 31 March 2018	48,9	27,2
Interest cost	12,8	12,8
Service cost	2,1	2,2
Actuarial loss recognised in profit or loss	9,7	10,8
Expected employer benefit payments	(5,3)	(4,0)
Projected accrued liability as at 31 March 2019	**68,2**	**49,0**

	GROUP	
	2018	2017
	Rm	Rm
OPERATING ACTIVITIES		
Reconciliation of present value of the unfunded obligation		
Opening balance	132,2	35,8
Current service cost	2,2	0,6
Interest cost	12,9	3,5
Actuarial loss	0,4	94,4
Expected employer benefit payments	(4,2)	(2,1)
Closing balance	**143,5**	**132,2**
Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position		
Present value of unfunded obligation	143,5	132,2
Unrecognised actuarial (losses)	(94,6)	(105,0)
	48,9	**27,2**
Net benefit expense (recognised in employee remuneration)		
Current service cost	2,2	0,6
Interest cost	12,9	3,5
	15,1	**4,1**

The main actuarial assumptions are:

	2018	2017
Discount rate	9,0%	9,8%
Health care cost inflation	8,0%	8,8%
CPI inflation	6,0%	6,8%
Average retirement age	63	63

A one percentage change in the assumed rate would have the following effects for the Group:

Sensitivity on defined benefit obligation	-1%	Base	+1%
Healthcare inflation	133,6	143,5	152,3
Discount rate	168,3	143,5	123,7
Sensitivity results from previous valuation	**-1%**	**Base**	**+1%**
Healthcare inflation	122,8	132,2	140,5
Discount rate	155,9	132,2	113,5

6.2.3 Summary of defined medical benefit expense for all funds

	GROUP	
	2018	2017
	Rm	Rm
Defined medical benefit expense (post-retirement) included in employee cost:		
Current service cost	4,0	2,4
Interest cost	21,4	12,4
Actuarial cost	9,0	0,5
	34,4	**15,3**

7. INVENTORIES

Raw materials, components	1,6	1,1
Work in progress	1,0	1,4
Consumables	5,0	4,2
Finished goods	0,8	22,9
	8,4	**29,6**

The amount of inventories written off during the year is R Nil (2017: R Nil), inventories expensed during the year is R11,5 million (2017: R13,0 million).

8. TRADE AND OTHER RECEIVABLES

Trade receivables	57,7	80,4
Trade receivables - related parties	35,3	55,9
Total trade receivables	93,0	136,3
Other receivables	18,2	12,5
Other receivables - related parties	18,6	12,6
Personnel loans	-	-
Interest receivable on investments	23,9	1,3
	153,7	**162,7**

As at 31 March 2018 the ageing of trade receivables was as follows:

Neither past due nor impaired:	3,5	47,2
30 - 60 days	56,5	32,6
60 - 90 days	18,8	17,2
90 - 120 days	4,3	19,0
120 days and older	9,9	20,3
	93,0	**136,3**

Neither past due nor impaired trade receivables relates to goods and services provided to debtors. Management has made an assessment and they concluded that there are no indications of impairment.

	GROUP	
	2018	2017
	Rm	Rm
Movement in the allowance for doubtful debts:		
Balance at the beginning of the year	216,1	187,3
Amounts written off during the year	-	(9,5)
Impairment losses recognised on receivables	39,9	38,3
Balance at the end of the year	**256,0**	**216,1**

An amount of R652 was reversed during the year as the debtor made a partial payment on a long-outstanding invoice.

Terms and conditions of the above financial assets:

Trade and other receivables are non-interest bearing and are generally on 30 to 90 days terms.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

For terms and conditions relating to related party receivables, refer to related party disclosure note.

9. CASH AND SHORT-TERM DEPOSITS

Cash and cash equivalents consists of:		
Cash at banks and in hand	166,7	154,9
Short-term deposits	462,0	610,0
	628,7	**764,9**

Included in cash and short-term deposits is an amount of R8,7 million (2017: R12 million) in respect of cash allocated to the insurance reserve and R42,1 million (2017: R38,9 million) in respect of Dockyard's post-employment health care benefits as per note 6.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Cash reserves are earmarked for upgrading of systems, capital expenditure approved but not yet contracted and other maintenance requirements.

10. ORDINARY SHARE CAPITAL

Authorised		
▪ 1 000 000 000 ordinary shares of R1 each	1 000,0	1 000,0
Issued		
▪ Ordinary	75,0	75,0

Share Capital is under the control of the Executive Authority.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018 *(Continued)*

11. DEFERRED INCOME

Deferred income relates to cash, stock and assets received from the Department of Defence, of which the recognition of the income needs to be aligned with the incurring of the expenditure, or the fulfillment of the conditions of receipt.

	GROUP 2018 Rm	GROUP 2017 Rm
Non-current liabilities	23,6	42,3
Current liabilities	64,6	36,3
	88,2	**78,6**

12. TRADE AND OTHER PAYABLES

	GROUP 2018 Rm	GROUP 2017 Rm
Trade payables	60,1	96,4
Trade payables - related parties	1,1	33,5
Other payables	95,7	100,4
Other payables - related parties	31,2	21,5
	188,1	**251,8**
Trade payables	28,5	95,4
Other payables	126,8	121,8
Current	**155,3**	**217,2**
Trade payables		
> 30 Days	17,5	33,7
> 60 Days	15,3	0,9
	188,1	**251,8**

Terms and conditions of the above financial liabilities:
Trade payables are non-interest bearing and are normally settled on 30-day terms.
For terms and conditions relating to related parties, refer to related party disclosure note.

13. PROVISIONS

GROUP	OPENING BALANCE Rm	ADDITIONS DURING THE YEAR Rm	UTILISED DURING THE YEAR Rm	UNUTILISED PORTION REVERSED Rm	TOTAL Rm
RECONCILIATION OF PROVISIONS					
2018					
Provision for leave	61,4	42,8	(35,5)	(7,9)	60,8
Provision for performance remuneration	59,8	64,0	(58,7)	(1,0)	64,1
	121,2	**106,8**	**(94,2)**	**(8,9)**	**124,9**
2017					
Provision for leave	60,4	41,4	(32,6)	(7,8)	61,4
Provision for performance remuneration	57,5	59,7	(57,1)	(0,3)	59,8
	117,9	**101,1**	**(89,7)**	**(8,1)**	**121,2**

Performance remuneration for 2017/18 will be paid upon completion of the performance evaluation process.

14. TAXATION

	GROUP	
	2018 Rm	2017 Rm
DEFERRED TAXATION		
The deferred taxation liability is attributable to the following:		
Fair value adjustment on investments	5,2	5,0
The movement between the balances of deferred taxation at the beginning of the year and the end of the year can be analysed as follows:		
At the beginning of the year	5,0	5,0
Current year movement on fair value adjustment	0,2	-
- Current year movement on fair value adjustment	(0,3)	-
- Change in tax rate	0,5	-
Closing balance	**5,2**	**5,0**
NORMAL TAXATION		
Current tax	1,4	1,3
- Current year	3,3	1,3
- Prior year	(1,9)	-
Deferred tax	0,2	-
- Current year movement on fair value adjustment	0,2	-
	1,6	**1,3**
Reconciliation of tax expense		
Accounting profit before income tax	9,4	4,2
Non-taxable income	(8,0)	(6,6)
Non-deductible expenditure	2,1	5,5
Net capital gain	3,7	-
Taxable income	**7,2**	**3,1**
Current income tax at 45% (2017: 41%)	3,3	1,3
Total normal income tax	**3,3**	**1,3**

	GROUP	
	2018 Rm	2017 Rm
Reconciliation of income tax payable/(receivable)		
Outstanding at beginning of year	(26,0)	(25,9)
Normal income tax for current year	3,3	1,3
Income tax paid during the year	30,5	(1,4)
Prior year adjustment	(2,0)	-
Income tax payable/(receivable) at the end of the year	**5,8**	**(26,0)**
	%	%
Reconciliation of income tax rate		
Current year's charge as a percentage of income before taxation	34,9	30,3
Non taxable income	38,4	63,9
Non deductible expenditure	(10,3)	(53,2)
Capital gains	(18,0)	-
Standard income tax rate	**45,0**	**41,0**

Taxation disclosed above relates to tax (receivable)/payable by the Armscor Medical Benefit Fund as Armscor is exempted from paying income tax.

15. FINANCIAL INSTRUMENTS

15.1 Introduction

The Group’s financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable, which arise directly from its operations.

The principle market risks to which the Group is exposed through financial instruments are:

- Foreign exchange transactions
- Interest rates
- Credit risk
- Liquidity risk
- Investment risk

15.2 Category analysis of financial

	2018		2017	
	Fair Value Rm	Carrying Value Rm	Fair Value Rm	Carrying Value Rm
Assets				
Loans and receivables	**782,4**	**782,4**	**927,6**	**927,6**
Trade and other receivables	153,7	153,7	162,7	162,7
Cash and cash equivalents	577,8	577,8	713,9	713,9
Cash allocated to insurance reserve	8,8	8,8	12,1	12,1
Cash allocated to Dockyard post-retirement benefit	42,1	42,1	38,9	38,9
Designated at fair value through profit and loss	**368,2**	**350,1**	**131,4**	**113,9**
Government and other bonds	33,5	29,9	18,4	17,4
Shares - listed	62,3	57,9	55,6	48,9
Deposits at banking institutions	252,9	252,8	39,2	39,1
International investments	19,5	9,5	18,2	8,5
	1 150,6	1 132,5	1 059,0	1 041,5
Liabilities	**(188,1)**	**(188,1)**	**(251,8)**	**(251,8)**
Trade and other payables	(188,1)	(188,1)	(251,8)	(251,8)
	962,5	**944,4**	**807,2**	**789,7**

15.3 Interest rate management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's investments. In the ordinary course of business, the Group receives cash through the transfer payment to fund its operations as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

15.4 Credit risk management

The Group only deposits cash surpluses with major banks of high quality credit standing.

Trade receivables comprise a widespread customer base. The granting of credit is controlled by well-established criteria, which are reviewed and updated on an ongoing basis.

At year end, the Group did not consider any need for significant concentration of credit risk, which has not been insured or adequately provided. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

15.5 Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of call accounts. The Group maintains a sufficient level of liquidity to be able to meet all its obligations. The Group has no overdraft facility but has other facilities, which include guarantees and letters of credit.

15.6 Capital management

Capital includes equity attributable to the equity holders. The primary objective of the Group's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios to support its business. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. No changes were made in the objective, policies or processes for the year ended 31 March 2018. The Group does not have external imposed capital requirements. The Group does not make use of capital from outside providers other than trade and other payables and have sufficient cash and cash equivalents to cover its net debt.

	GROUP	
	2018 Rm	2017 Rm
Trade and other payables	(188,1)	(251,8)
Cash and cash equivalents	628,7	764,9

15.7 Interest rate risk

The Group's exposure to the risk in market interest rates relates primarily to interest received on call accounts and fixed deposits.

Interest rate risk (sensitivity analysis)

The following table demonstrates the sensitivity to a change in interest rates with all other variables held constant.

	Increase/decrease in basis points	Increase/decrease in surplus for the year and equity
2018	± 50	± 4,3 million
	±25	± 2,2 million
2017	±50	±4,4 million
	±25	±2,2 million

15.8 Investment risk

Investments in equities are valued at fair value and therefore susceptible to market fluctuations.

Investments are managed with the aim of maximising the Group's returns while limiting risk to acceptable levels.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

15.9 Foreign currency risk

Foreign currency risk is the risk that the value of an instrument will fluctuate in South African rands due to changes in foreign exchange rates.

The Group is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the Group and transactional currency exposures. The currency giving rise to the risk is primarily US dollars (USD).

These investments are monitored to ensure that the exposure to foreign currency risk is maintained within internal diversification guidelines.

	GROUP	
	2018	2017
	Rm	Rm

16. REVENUE

	2018 Rm	2017 Rm
Sale of goods - Research & Development	12,4	13,2
Services revenue - Armscor Corporate*	68,2	9,7
Services revenue - Armscor Dockyard	5,8	6,8
Services revenue - Research & Development	381,0	373,6
	467,4	**403,3**

17. COST OF SALES

	2018 Rm	2017 Rm
Sale of goods		
Sale of goods - Research & Development	7,4	9,3
	7,4	9,3
Rendering of services		
Services revenue - Armscor Corporate*	23,9	-
Services revenue - Armscor Dockyard	1,3	0,9
Services revenue - Research & Development	127,9	126,0
	153,1	126,9
Total		
Sale of goods	7,4	9,3
Rendering of services	153,1	126,9
	160,5	**136,2**

18. GROSS PROFIT

	2018 Rm	2017 Rm
Armscor Corporate*	44,3	9,7
Armscor Dockyard	4,5	5,9
Research & Development	258,1	251,5
	306,9	**267,1**

19. OTHER OPERATING INCOME

	2018 Rm	2017 Rm
Armscor Corporate rental income*	25,5	24,4
Armscor Corporate other income*	33,7	20,7
Research & Development other income	3,6	11,6
Armscor Dockyard	0,1	0,2
Armscor Medical Benefit Fund dividend income	1,5	1,5
Armscor Medical Benefit Fund profit on investments sold	6,2	5,1
Armscor Medical Benefit Fund fair value adjustments on investments	0,4	(3,1)
	71,0	**60,4**

* Armscor Corporate relates to Head Office, including AB Logistics results

20. ALLOCATION FOR OPERATING EXPENDITURE (GOVERNMENT GRANT)

	GROUP 2018 Rm	 2017 Rm
Transfer payment - Armscor Corporate*	780,1	614,9
Transfer payment - Research & Development	76,0	39,3
Transfer payment - Armscor Dockyard	201,6	206,0
	1 057,7	**860,2**

21. OPERATING EXPENSES

	2018 Rm	2017 Rm
Armscor Corporate*	914,1	867,4
Armscor Dockyard	242,4	210,8
Research & Development	342,1	311,7
Armscor Medical Benefit Fund	5,3	4,9
	1 503,9	**1 394,8**
Operating expenses has been arrived at taking into account:		
Loss on investments sold	2,0	2,2
Impairment losses recognised on receivables	39,9	38,3
Loss on exchange rate differences	0,9	0,1
Amortisation on intangible assets	1,7	1,1
Impairment and write-off of property, plant and equipment	0,1	0,9
Auditors remuneration	4,7	4,8
Depreciation on property, plant and equipment	83,7	82,5
Employee costs	1 118,0	993,0
Post-retirement benefits (included in employee cost)	86,1	78,1
Direct employee cost reflected under cost of sales	36,8	43,7

22. PROFIT/(LOSS) FROM OPERATIONS

	2018 Rm	2017 Rm
Armscor Corporate*	(30,5)	(197,7)
Armscor Dockyard	(36,2)	1,3
Research & Development	(4,4)	(9,3)
Armscor Medical Benefit Fund	2,8	(1,4)
	(68,3)	**(207,1)**

* Armscor Corporate relates to Head Office, including AB Logistics results.

23. INVESTMENT REVENUE

	GROUP	
	2018 Rm	2017 Rm
Finance income - Armscor Corporate	65,0	69,4
Finance income - Armscor Medical Benefit Fund	6,6	5,6
	71,6	**75,0**

24. PROFIT/(LOSS) AFTER TAX

	GROUP	
	2018 Rm	2017 Rm
After elimination of inter-group transactions		
Armscor Corporate	34,5	(82,5)
Armscor Dockyard	(36,2)	1,3
Research & Development	(4,4)	(48,6)
Armscor Medical Benefit Fund	7,8	2,9
	1,7	**(126,9)**
The following figures are divisional contributions before elimination of inter-divisional transactions, revaluation of assets and excluding the loan write-off		
Armscor Corporate	43,5	(123,0)
Armscor Dockyard	(39,3)	(1,7)
Research & Development	(7,3)	(8,1)
Armscor Medical Benefit Fund	7,8	2,9
	4,7	**(129,9)**

Inter-divisional transactions include office rental, service level agreement and transfer payments.

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FOR THE YEAR ENDED 31 MARCH 2018 *(Continued)*

25. CASH GENERATED FROM OPERATIONS

	GROUP	
	2018 Rm	2017 Rm
Profit/(Loss) before taxation	3,3	(125,6)
Adjustments for:		
Depreciation and amortisation	85,4	83,7
Dividends received	(4,5)	(4,9)
Impairment and assets written off	0,1	1,0
Fair value adjustments	26,9	3,1
Share of loss/(profit) in joint venture	3,1	(3,1)
Profit on sale of assets	(0,4)	-
Proceeds on disposal of investment	(6,2)	(5,1)
Loss on investment sold	2,6	2,8
Finance income	(71,6)	(75,0)
Movements in retirement liabilities	27,8	9,9
Movements in provisions	3,7	3,3
Changes in working capital:		
Trade and other receivables	9,2	34,7
Inventories	21,2	(22,1)
Trade and other payables	(63,9)	(23,2)
Deferred income	9,6	(22,6)
	46,3	**(143,1)**

26. CONTRACTUAL COMMITMENTS

Projected outstanding commitments in respect of orders placed for expected deliveries.	92,8	94,3

Contractual commitments which may arise out of these contracts are covered in full by means of financial authorisations. In other cases cover is obtained by means of back-to-back orders amounting to R67,4 million (2017: R54,8 million).

Commitments relating to the Fort Hare School of Science and Techonology Discovery Centre programme, which is designed to encourage learners to pursue and excel in Mathematics, Science and Technology related fields entered with the University of Fort Hare.

The commitment is as follows:
2018/19: R697 800

27. CAPITAL COMMITMENTS

	GROUP	
	2018	2017
	Rm	Rm
Authorised capital expenditure		
Capital expenditure approved but not yet contracted		
Property, plant and equipment	8,9	-
Intangible assets	27,0	34,1
	35,9	**34,1**

This committed expenditure relates to plant and equipment and will be financed with cash reserves and funds internally generated.

28. OPERATING LEASE COMMITMENTS – GROUP AS LESSEE AND LESSOR

Lessee disclosure

The Group has entered into operational leases on certain motor vehicles and items of machinery and equipment. Most of the leases have expired and are running on a month to month basis. There are no restrictions placed upon the lessee by entering into these leases. The lease charges paid for the year is R3,2 million (2017: R2,1 million) of which R0,6 million (2017: R0,7 million) relates to contingent rentals on operating leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2018 are as follows:

Within one year	1,2	0,8
After one year but not more than five years	0,2	0,9
	1,4	**1,7**

Lessor disclosure

The Group entered into operating lease relating to Armscor Head Office and R&D facilities, with regards to office space and parking. The leases have expired and are on a month to month basis. There is a three month cancellation notice period in terms of the contract. The Group is in a process of entering into a new lease agreements with the existing tenant.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2018 are as follows:

Within one year	12,6	11,0
	12,6	**11,0**

29. CONTINGENCIES

29.1 CONTINGENT LIABILITIES

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R0,2 million (2017: R0,2 million) and to a foreign contractor amounting to R33,6 million (USD2,8 million) [2017: R27,9 million] (USD2,1 million) for an advance payment received.

Bank guarantees have been issued on behalf of Armscor in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R7,8 million (2017: R8,4 million) with regard to local guarantees.

Alkantpan

As at 31 March 2018 the Group had a contingent liability in respect of rehabilitation of the test range at Alkantpan.

In terms of the National Environmental Management Act (Act 107 of 1998), Section 28 (1), which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimise degradation of the environment. Certain options were investigated and, as no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility, which is partially funded by the DOD. Alkantpan has elected to manage the range in compliance with the Act and to continue with its day to day clearing actions.

A steering committee was formed between Alkantpan and the Department of Tourism, Environment and Conservation of which the first meeting took place on 5 September 2006. It was confirmed at this meeting that the committee is to guide and advise Alkantpan on the environmental way forward and to ensure legislative compliance to the Act.

Meetings are scheduled to monitor the process and provide feedback on the progress. In terms of the last meeting held, no new issues or risks were reported at the meeting held and it was reported that the current measures in place is sufficient to manage the range in compliance with the Act.

The cost incurred for rehabilitating the site during the period under review was R2,3 million (2017: R2,5 million).

29.2 CONTINGENT ASSETS

DPW/DOD lease

At 31 March 2018, the Group had a contingent asset of R47,8 million (2017: R41,8 million) in respect of long outstanding rental lease payments from the Department of Public Works (DPW) lease agreement, wherein the DOD is the tenant.

At the end of the current financial year, DOD remitted the funds to DPW. However, DPW has not yet remitted the funds to Armscor due to an ongoing investigation on DPW by the Special Investigative Unit. No adjustment has been made to the financial statements as the timing and occurrence of receipt of the outstanding rental amount is uncertain. The impact of the total rental amount to the current financial year would be an estimated positive result for the Group of R259,4 million.

30. INFORMATION REQUIRED IN TERMS OF SECTION 55(2) OF THE PUBLIC FINANCE MANAGEMENT ACT

An amount of R Nil million (2017: R9,5 million) relating to unrecoverable debts was written off during the year.

	GROUP	
	2018	2017
	Rm	Rm
a) Irregular Expenditure		
Opening Balance	9,7	-
Add : Irregular Expenditure - reported in the current financial year	12,3	9,7
• Amount under investigation in prior year, confirmed in current year	0,2	
• Amount relating to prior financial years	0,1	
• Amount relating to current financial year	12,0	9,7
Less : Amounts condoned	(3,5)	-
Irregular expenditure awaiting condonation	**18,5**	**9,7**
Analysis of expenditure awaiting condonation per age classification		
Current year	11,2	9,7
Prior years	7,3	-
Total	**18,5**	**9,7**

Details of Irregular Expenditure

Armscor applied a 25% black equity selection criterion as a requirement, in accordance with the supply chain policy of the Group. Armscor engaged extensively with National Treasury on this matter, which culminated in an application made to National Treasury for exemption from the Preferential Procurement Policy Framework Act (PPPFA), 2000 and the Procurement Regulations, 2011.

The application of this principle was stopped on all tenders published from 1 September 2014. However, as this selection criterion was deemed to be in conflict with the PPPFA, the total value of contracts placed of R1,1 million (2017: R1,9 million) while applying this principle, is deemed to be irregular expenditure.

In addition, irregular expenditure of R11,2 million was incurred during the year as a result of procurement that occurred without following the competitive bidding process. R8,0 million (2017: R4,7 million) of this expense relate to security services contracts that were extended pending finalisation of discussions to transfer the physical security of its head office and strategic facilities to the DOD. R2,0 million (2017: R2,2 million) incurred related to non-competitive contracts awarded and R1,2 million was treated as single source procurement without the required approval. In line with internal disciplinary processes, responsible officials were given verbal warnings as a consequence of related irregular expenditure.

	GROUP	
	2018	2017
	Rm	Rm
b) Fruitless and Wasteful Expenditure		
Opening Balance	3,0	-
Add: Fruitless and Wasteful expenditure - reported in the current financial year	4,1	3,0
• Amount relating to prior financial years	0,2	-
• Amount relating to current financial year	3,9	3,0
Fruitless and wasteful expenditure awaiting write-off	**7,1**	**3,0**
Analysis of expenditure awaiting write-off per age classification		
Current year	4,1	3,0
Prior years	3,0	-
Total	**7,1**	**3,0**

Details of Fruitless and Wasteful Expenditure

Expenditure amounting to R4,1 million (2017: R3 million) was incurred during the year and is deemed to be fruitless and wasteful. The expenditure was as a result of penalties charged for late deliveries in terms of contracts (R1,2 million) and R2,9 million (2017: R2,1 million) expenditure with no corresponding benefit to the organisation. However, Armscor is finalising negotiations with the supplier whereby equal value will be recovered for other services required. A written warning was issued against one of the officials responsible for the fruitless and wasteful expenditure, whilst processes are underway to determine appropriate action to be taken in relation to other officials.

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS

	Notes	FEES AND COMMITTEE REMUNERATION R	BASIC SALARY R	OTHER BENEFITS 1 R	ALLOWANCES 2 R	RETIREMENT AND OTHER CONTRIBUTIONS 3 R	TOTAL R
31 MARCH 2018							
Directors' Emoluments							
Executive Directors							
JG Grobler		-	2 077 515	417 649	118 356	356 899	2 970 419
KPE Wakeford		-	3 008 559	645 000	150 000	349 702	4 153 261
Subtotal		**-**	**5 086 074**	**1 062 649**	**268 356**	**706 601**	**7 123 680**
Non-Executive Directors							
31 MARCH 2018							
Adv VLA de la Hunt		306 830	-	-	-	-	306 830
Dr MB Khanyile		1 152 346	-	-	-	-	1 152 346
Vice Admiral (Ret) RJ Mudimu		688 296	-	-	-	-	688 296
T Skweyiya		535 155	-	-	-	-	535 155
NM Tyibilika		513 434	-	-	-	-	513 434
RM Vokwana		491 550	-	-	-	-	491 550
T Mhlari	**6**	240 510	-	-	-	-	240 510
JT Ndhlovu	**6**	400 984	-	-	-	-	400 984
CE Simpson	**6**	322 564	-	-	-	-	322 564
Subtotal		**4 651 669**	**-**	**-**	**-**	**-**	**4 651 669**
Total 31 March 2018		**4 651 669**	**5 086 074**	**1 062 649**	**268 356**	**706 601**	**11 775 349**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS

		FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS 1	ALLOWANCES 2	RETIREMENT AND OTHER CONTRIBUTIONS 3	TOTAL
	Notes	R	R	R	R	R	R
31 MARCH 2017							
JG Grobler		-	1 750 164	385 991	117 408	320 262	2 573 825
KPE Wakeford		-	2 704 527	550 000	150 000	316 245	3 720 772
Subtotal		**-**	**4 454 691**	**935 991**	**267 408**	**636 507**	**6 294 597**
31 MARCH 2017							
Adv VLA de la Hunt		297 920	-	-	-	-	297 920
Dr MB Khanyile		1 051 930	-	-	-	-	1 051 930
Vice Admiral (Ret) RJ Mudimu		1 279 675	-	-	-	-	1 279 675
T Skweyiya		473 540	-	-	-	-	473 540
NM Tyibilika		321 566	-	-	-	-	321 566
RM Vokwana		294 375	-	-	-	-	294 375
Subtotal		**3 719 006**	**-**	**-**	**-**	**-**	**3 719 006**
Total 31 March 2017		**3 719 006**	**4 454 691**	**935 991**	**267 408**	**636 507**	**10 013 603**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018 *(Continued)*

		FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS 1	ALLOWANCES 2	RETIREMENT AND OTHER CONTRIBUTIONS 3	TOTAL
	Notes	**R**	**R**	**R**	**R**	**R**	**R**
EXECUTIVE COMMITTEE EMOLUMENTS							
Executive Members							
31 MARCH 2018							
TT Goduka		-	1 573 569	402 906	149 427	266 721	2 392 623
SP Mbada		-	1 860 882	312 215	186 611	335 914	2 695 622
JL Mzili		-	1 823 685	507 221	132 504	267 313	2 730 723
CVV Ramphele	**5**	-	115 327	222 343	13 301	23 766	374 737
NM Mabaso	**7**	-	364 005	-	2 901	54 554	421 460
Prof N Mkaza		-	2 073 114	511 749	11 604	307 383	2 903 850
JS Mkwanazi		-	2 268 237	505 196	87 456	352 487	3 213 376
GO Radebe	**7**	-	370 089	64 321	7 095	70 445	511 950
NB Senne		-	1 340 640	371 271	98 981	216 189	2 027 081
TOTAL		**-**	**11 789 548**	**2 897 222**	**689 880**	**1 894 772**	**17 271 422**
Non-Executive Audit Committee Member, not member of Board of Directors							
31 MARCH 2018							
L Kuse	**8**	14 130	-	-	-	-	14 130
TOTAL		**14 130**	**-**	**-**	**-**	**-**	**14 130**
31 MARCH 2017							
TT Goduka		-	1 524 168	389 608	148 440	255 441	2 317 657
SP Mbada		-	1 498 956	309 326	185 519	256 920	2 250 721
JL Mzili		-	1 432 092	241 042	131 604	217 965	2 022 703
CVV Ramphele		-	1 357 203	282 525	159 612	272 738	2 072 078
NM Mabaso		-	1 430 622	323 381	11 604	212 353	1 977 960
Prof N Mkaza		-	1 652 865	358 432	11 604	244 908	2 267 809
JS Mkwanazi		-	2 192 535	491 004	87 456	359 548	3 130 543
GO Radebe		-	1 454 535	346 629	30 912	282 867	2 114 943
TOTAL		**-**	**12 542 976**	**2 741 947**	**766 751**	**2 102 740**	**18 154 414**
Non-Executive Audit Committee Member, not member of Board of Directors							
31 MARCH 2017							
L Kuse		14 130	-	-	-	-	14 130
TOTAL		**14 130**	**-**	**-**	**-**	**-**	**14 130**

Information applicable to note 31

1. Other benefits include bonus (13th cheque), performance related payments and leave capitalisation.
2. Allowances include sums paid by way of expense allowances, i.e. motor, cell phone and acting allowance as well as long service awards.
3. Retirement benefits include contributions made to Armscor Retirement Funds; medical aid; unemployment and funeral scheme.
4. No emoluments are paid to Armscor Defence Institutes ex officio Directors: Messrs JG Grobler, SP Mbada and KPE Wakeford.
5. Adv CVV Ramphele retired as General Manager: Corporate Compliance on 30 April 2017.
6. Ms CE Simpson, Ms T Mhlari and Ambassador TJ Ndhlovu were appointed as Non-Executive Directors on 1 May 2017.
7. Due to organisational restructuring Mr NM Mabaso and Mr GO Radebe ceased being executive members on 10 July 2017.
8. Mr L Kuse term as non-executive audit committee member ended on 30 April 2017.

Share options

No share options exist and therefore no share option gains are included in the amount of emoluments received as directors of the Corporation.

Directors' service contracts

Notice periods in respect of employment contracts of executive directors do not exceed one year. Non executive directors are appointed for a three-year period and not bound by employment contracts.

Pensions

Pensions paid or receivable by executive directors are paid or received under defined contribution pension schemes.

32. RELATED-PARTY DISCLOSURES

The Armaments Corporation of South Africa SOC Ltd ("ARMSCOR") is a statutory body, wholly owned by the State, established in terms of the Armaments Development and Production Act (Act No 57 of 1968), and continues, its existence through the Armaments Corporation of South Africa Ltd Act (Act No 51 of 2003).

Armscor operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

To execute its mandate, Armscor received a Government grant of R1 057,7 million (2017: R860,2 million) from the State through the Department of Defence (DOD) as well as secondary transfer payments (in terms of separate Memorandum of Agreements) for services rendered from the Department of Defence to the value of R69,4 million (2017: R76,9 million).

Dormant subsidiaries (At 100% Holdings)	**2018** **Rm**	**2017** **Rm**
Armscor Defence Institutes SOC Ltd (loan to)	4 000	4 000
Erasmusrand Eiendomme SOC Ltd (loan from)	1	1
Oospark SOC Ltd (loan from)	1	1
Sportrand SOC Ltd (loan from)	1	1

Armscor is a 33,3% partner in Africa Aerospace and Defence, refer to note 5 for disclosure.

The following table provides the total amount of transactions, which have been entered into by the Group with related parties for the relevant financial year.

	Sales of goods and services to related parties		Purchases of goods from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Department of Defence	288,6	239,8	72,6	69,6	42,1	27,2	100,7	107,6
State controlled entities								
Major national public entities (Schedule 2 and 3 public entities)	435,8	354,1	57,1	93,8	39,3	35,7	18,5	36,0
National Government	20,1	20,8	0,6	15,4	7,2	14,3	2,1	0,1

Government grant and the secondary transfer payment received from the DOD are not included in the figures above.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2018, the Group has made provision for doubtful debts of R256,0 million (2017: R216,1 million) relating to amounts owed by related parties.

In accordance with Armscor's mandate, acquisition was undertaken on behalf of the DOD. These transactions are set out in annexure A of the financial statements.

	GROUP	
	2018 Rm	2017 Rm
Reconciliation of transfer payments received from the DOD		
- Primary transfer payment recognised in comprehensive income	1 057,7	860,2
- Secondary transfer payment received	69,4	76,9
- Funds received for IMT transferred to deferred income due to outstanding conditions	-	7,9
- Funds received for Dockyard transferred to deferred income due to outstanding conditions	20,3	7,9
- Deferred Income recognised as transfer payment	(9,8)	(21,9)
Total transfer payments allocated by the Department of Defence	**1 137,6**	**931,0**

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 have been fair valued at R42,7 million and accounted for as deferred income, with the purpose of recognising it in line with the utilisation of the assets and stock.

Retirement benefits

Details of the Armscor retirement benefits are disclosed in note 6.

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor's Directors. Two of Armscor's Executive Directors and two Armscor Executive Members are ex-officio directors of the Armscor Defence Institutes' Board of Directors at 31 March 2018. One Armscor Executive Director is also ex-officio director on the Boards of Erasmusrand Eiendomme SOC Ltd, Sportrand SOC Ltd and Oospark SOC Ltd. These companies are dormant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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Key management personnel

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals who are members of the Armscor executive committee up to the Board of Directors are regarded as key management.

Information on the remuneration of all key management personnel is disclosed in note 31.

33. ENTITY FINANCIAL STATEMENT

Entity financial statements have not been prepared as they are similar to Group financial statements. The only difference relates to the inclusion of a Joint Venture transaction, which amounts to R Nil million.

Reconciliation of entity profits to Group profit	Rm
Entity profit after tax	1,7
Joint Venture transaction	-
Group profit	1,7

Financial position differences:	Entity Rm	Group Rm
Investment in Joint Venture	0,1	-
Equity	2 075,4	2 075,4

ANNEXURE A -
ANNEXURE TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018 (unaudited)

TOTAL VALUE OF ACQUISITION ACTIVITIES

Government grants for operating expenditure are obtained to undertake acquisition actions. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Department of Defence					
- Special Defence Account	4 458,2	5 275,1	4 714,0	4 481,0	5 170,2
- General Defence Account	2 084,7	2 247,9	2 480,0	2 859,6	2 647,7
SA Police Service	-	1,7	14,0	88,1	94,7
Other	21,2	152,8	45,0	25,5	60,9
	6 564,1	**7 677,5**	**7 253,0**	**7 454,2**	**7 973,5**

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