ANNUAL REPORT
2021/2022

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

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SECTION 1

WHO WE ARE

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

WHO WE ARE

1.1 COMPANY DETAILS

Registered Name:	Armaments Corporation of South Africa SOC Limited
Office Address:	Corner of Delmas Drive and Nossob Street, Erasmuskloof Extension 4, Pretoria
Postal Address:	Private Bag X337 Pretoria 0001, South Africa
Contact Telephone Number:	012 428 1911
Email Address:	Info@armscor.co.za
Website Address:	www.armscor.co.za
External Auditor's Name:	Auditor-General of South Africa
Banker's Name:	ABSA
Company Secretary:	Ms FM Kumalo

1.2 CHAIRPERSON'S REPORT

DR PD DEXTER
CHAIRPERSON

It is nearly 18 months since the appointment of this Board of Directors of Armscor. In that time, global events have taken a dramatic turn with the conflict between Russia and Ukraine shocking the world. While conflicts in other regions are not new, the fact that this takes place in Europe and that it threatens to plunge the world into a global conflict makes this issue one of a more serious in nature than the very many others we witness.

In our own region, the conflict between insurgents and the Mozambiquan defence force, lately assisted by Southern Africa Development Communities (SADC) and other African countries, with the South African National Defence Force (SANDF) playing a key role, has shown that anyone who takes the issue of the defence of the sovereignty of our country lightly, is likely to contribute to weakening our efforts in this regard.

The ongoing impact of COVID-19 and the attempted insurrection by forces within the country in July 2021, as well as the floods in KwaZulu-Natal have shown with dramatic effect what the weakening of the capacity of the SANDF means for the Republic of South Africa and its citizens.

It is against this backdrop that the Board of Directors of Armscor, supporting the Executives of the Corporation, have sought to continue to transform the company and make it fit for purpose in terms of the threats and challenges that face the country. The impact of the near demise of Denel, continued budget cuts by National Treasury and the personnel bill of the SANDF continues to put pressure on the capability of Armscor to serve its primary client, the SANDF and to grow its international customer base. It has become demonstrably clear to the Board of Directors that the entire defence sector made up of the SANDF, Armscor, Denel and the local industry, are standing at the edge of the abyss. Unless dramatic action is taken, the country could lose what is left of its sovereign capability and the Intellectual Property it has developed over the years. In this regard, the Board has engaged with Denel, the SANDF, the Department of Public Enterprises (DPE) and the industry through AMD to give its input on what needs to be done to protect the interests of the citizens of the country.

While these dark clouds hover, it should be noted that the delivery of the first of three inshore patrol vessels (IPVs) under project Biro will take place early next financial year, on time and in budget. Project Hotel is also on target to be finalised. The Department of Defence (DOD) has provided much needed funding to ensure that the current capability of the Air Force is maintained. Cooperation agreements with Turkey and Saudi Arabia have been finalised and partnerships with these countries will ensure a much needed injection of capital into the industry. Having said that, the Board is of the view that we have not yet achieved our full potential as a Corporation. The coming year must see greater success in building partnerships and in growing the commercial side of Armscor. The African and global markets are all growing and Armscor must be positioned to take advantage of these.

We congratulate Minister Thandi Modise on her appointment and look forward to working under her capable leadership to ensure that we restore the capacity of the SANDF to what it should be. Lastly, the Board extends its appreciation and thanks to the staff and the executives of Armscor, who continue to lend their loyal efforts in difficult circumstances. The fact that Armscor has once again recorded an unqualified audit is a measure of the performance of the Corporation. Together, we will overcome these challenges.

DR PD DEXTER
CHAIRPERSON

1.3 CHIEF EXECUTIVE OFFICER'S REPORT

ADV. SP MBADA
CHIEF EXECUTIVE OFFICER

Armscor is pleased to present the Annual Report for the year ending 31 March 2022.

The year was indeed challenging for all of us, where we had to adjust the way we do business while also dealing with the effects of COVID-19 pandemic.

This enabled us to refocus and adapt both at a social and professional level.

The role of technology in accelerating societal advancement was even more amplified as we had to work remotely. However, looking back, it demonstrates that we are capable to adapt to the ever-changing environmental conditions.

Performance review - Highlights and challenges

Armscor is pleased to have obtained an unqualified audit outcome by the Auditor-General of South Africa. This is attributable to hard work and teamwork by our staff.

Company Performance

Despite all the challenges encountered during the reporting period, Armscor met and in some instances exceeded its goals in line with the Corporate Plan. In accordance with the service level agreement, the requirements received were executed and orders placed for the fulfilling thereof. The details of these achievements are covered extensively in this Annual Report.

Armscor is committed towards the National Development Agenda, and to this end the Corporation sponsored 29 students with bursaries to study at different tertiary institutions. The majority of students are in the engineering and science fields. A further 31 learners were placed on the Talent Development Programme within Armscor.

The programme aims to develop a pool of readily available talent and technical expertise to meet required skills for our current and future business strategic needs. These graduates were recruited from our bursary pools and were provided with opportunities to work on advanced technologies at Armscor and with other partners in the Defence Industry.

Through the Corporate Social Investment, Armscor continues making meaningful impact in our communities. A lot has been done on education to assist learners from previously disadvantaged communities to improve their performance and results in science, technology, engineering and mathematics. During the period under review, projects were supported across the country with the focus on human capital development, socio-economic development and social relief initiatives.

Government and particularly the DOD's ability to perform its duties is directly linked to Armscor and the Defence Industry's ability to deliver its services and the protection of our sovereignty.

Armscor is therefore, proud of the achievements spearheaded with the support of our stakeholders and the establishment of the Defence Industry Fund as well as supporting the development of the Defence Sector Charter and Codes. The Defence Sector Council administers the Enterprise and Supplier Development and ensures compliance to the Charter and Codes.

WHO WE ARE

Project Highlights

Hydrographic Capability

The project is progressing well and all Survey Motor Boats (SMBs) have been completed and the first SMB was handed over to the SA Navy on 31 March 2022.

Multi-Mission Patrol Capability

The first vessel is being prepared for delivery after acceptance trials were completed. The construction and fitment of the second vessel was 70% complete by the end of the reporting period.

Commercialisation

As Armscor, we intensify our engagements with suitable partners both in the public and private sectors to offer key solutions.

It is important to bear in mind that even with the commercialisation strategy, Armscor will continue supporting the SANDF in executing its mandate. It is our obligation to provide the SANDF with state-of-the art defence matériel required to provide safety and security for South Africa, its citizens and the continent.

Various memoranda of understandings or agreements have been signed with potential partners to pave the way for new business opportunities. Work is continuing to bring the beach barrier (shark repellent) technology to market as well as testing the viability of establishing a capability for a drone landing strip in our Alkantpan facility. Furthermore, the Corporation will intensify its effort to sweat its properties and exploit its intellectual property.

Strategic Partnerships

Stakeholder engagement is one of Armscor's four strategic pillars. These engagements assists Armscor to maintain its position as a gateway to defence and security solutions, as well as to be the centre of technical excellence for defence acquisition and support services. Developing and maintaining long-lasting, strategic relationships with key stakeholders is of fundamental importance for Armscor. To this end, Armscor continues engaging various key stakeholders both locally and internationally on possible areas of collaboration. Strategic partnerships and collaborations with state agencies and broader industry at large are key to improving the situation within the defence industry and other government departments.

Armscor together with the Air Traffic and Navigation Services (ATNS) signed a memorandum of understanding (MOU) on 5 November 2021. This three-year partnership will see Armscor assisting ATNS with evaluating and configuring projects/programmes and contract management in the communication, navigation, surveillance and information technology areas. Armscor prides itself on maintaining high-quality international standards through rigorous testing and evaluation processes on all its technology management projects. The Corporation has extensive experience in providing defence turnkey solutions.

Over and above serving our primary client, the DOD, Armscor is also mandated to support other government departments as per the Armscor Act. This is demonstrated with the service level agreement that was established between Armscor and the South African Police Services (SAPS). The agreement entails amongst others the acquisition and procurement services to achieve synergy across the Security Cluster Departments. Ongoing projects include the disposal of obsolete landward and aeronautical platforms and other ancillaries. Through-life-cycle-support and maintenance management services on new and existing platforms are part of the offer to the SAPS to ensure service readiness in an efficient and effective manner.

Financial Outlook

Despite global and local economic conditions, Armscor continues delivering on its mandate. The 2021/22 financial year realised a surplus of R12,5m, which was impacted by COVID-19 pandemic through lower revenue for Facilities and AB Logistics. Financial sustainability remains a key issue that management is faced with. We are proud of various cost curtailment measures that have been put in place to improve the financial position of the Corporation. This in time will bear fruits.

Voluntary Severance Packages

Following a request for employees to participate in the Voluntary Severance Package (VSP) process, management can confirm that applications were received from employees across all levels. The Executive Committee approved a total number of 109 applications. Successful employees exited Armscor at the end of August 2021.

The financial outlook for the 2022/23 budget reflects a deficit of R16,1m mainly due to the cut in technology funding for Facilities and further effects of COVID-19 pandemic. Management plans to address the unfunded operations through cost cutting interventions, in the event that the requested funding does not materialise.

The impact of the interventions are reflected in the 2023/24 financial year and results in the Group improving its position to a net surplus position of R2,3m. A breakeven position of a R0,8m surplus in the 2024/25 financial year is projected. The three-year plan is based on the preliminary allocation letter from National Treasury.

Challenges

The reduction in the capital budget is having a significant impact, not only on the local defence industry and on the maintenance of strategic and sovereign capabilities within the industry, but also on the operational readiness of the SANDF. A challenge, which Armscor is mitigating by our focus on alternative revenue generating activities.

Defence Industry

One of the challenges that Armscor faced during the reporting period, was the decline and resultant non-performance of Denel. Denel contracts represent approximately 45% of Armscor's total acquisition portfolio for the DOD, so the inability of Denel to perform on contracts is having a huge impact on timeously meeting the requirements of the DOD. To mitigate the situation, we have been actively involved in making recommendations for specific interventions to arrest the loss of critical and strategic capabilities in Denel. Furthermore, we have been exploring alternative options to meet the critical requirements of the DOD.

Despite Denel's challenges, plans have been put in place to mitigate the challenges and meetings between Armscor Board and Denel Board have taken place and are continuing to take place.

Armscor welcomes the intervention measures by the DPE in resolving Denel's outstanding contracts and projects and any intervention aimed at improving the situation is a win for the defence industry as a whole. Discussions are at an advanced stage between Armscor and Denel on the most effective model.

We made representations to various forums with the aim of at least maintaining the core of the critical capabilities in the country. We have also achieved some successes in involving Black Owned SMMEs in leading edge technology and product development activities. We intend to focus on building on these successes going into the future. It is important that we maximise local industry participation in all projects and requirements that we are executing, in order to support our defence industry and to maintain the capabilities that we have managed to establish over the past many years.

In spite of severe delays in deliveries and disruption of the execution of contracts by the industry due to the COVID-19 pandemic lockdowns and restrictions, a number of projects and sub-projects were successfully completed and new capabilities were delivered to, and taken into operation by the SANDF. The details of these achievements are covered extensively throughout this Annual Report.

Acknowledgements

A special thank you to Ms Thandi Modise, the Minister of Defence and Military Veterans, the Deputy Minister, Mr Thabang Makwetla and members of the Council on Defence for the support provided throughout the year. The support received shall contribute in shaping the future Defence Industry. We assure them of our support and commitment.

I also wish to express my sincere thanks to the Parliamentary Portfolio Committee on Defence and Military Veterans for their guidance and oversight role. This has contributed to the successful execution of our work.

WHO WE ARE

It is with pleasure to have served Armscor's primary client, namely the DOD as a whole and we thank them for their support and confidence in Armscor as a trusted service provider. Armscor will continue to provide such necessary support within the budget constraints when called upon to do so. To all other stakeholders, I wish to express appreciation for their support and assistance in assisting Armscor to render an excellent service to all its clients.

We thank the South African Defence Industry for delivering quality defence equipment to the SANDF and their other customers. The South African defence-related industry has once again delivered its respected high standard and quality defence equipment to our clients and I congratulate the industry on being able to do so under very challenging circumstances. They continued to receive recognition for their products and their capabilities throughout the year. A special thank you to the defence-related industry, spearheaded by AMD, for having been part of the defence team.

My sincere thanks to the Armscor Board of Directors for their leadership and guidance.

We thank Management and employees for their commitment and diligence in delivering the mandate of the Corporation.

We will work towards this in partnership with industry and all relevant role players with zeal and zest, ensuring that all that we seek to do and achieve is done on time and in time. This is the only way we can create hope and stability in the defence industry environment.

Armscor looks forward to the new fiscal year with greater optimism and is ready to further improve where we faulted.

ADV. SP MBADA
CHIEF EXECUTIVE OFFICER

1.4 STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ACCURACY OF THE ANNUAL REPORT

The Armscor Board of Directors 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 South African Statements of Generally Recognised Accounting Practices.

The directors, supported 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 27-36, 92-102 and 113-183 was approved by the Armscor Board of Directors on 29 August 2022.

CERTIFICATE

In terms of Section 88 (2) (e) of the Companies Act (Act No. 71 of 2008 (as amended)), (the Act), it is hereby certified that for the year ended 31 March 2022, the Armaments Corporation of South Africa SOC Limited 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.

DR PD DEXTER
CHAIRPERSON OF THE BOARD

1.5 STRATEGIC OVERVIEW

The Armaments Corporation of South Africa SOC Limited (Armscor) is a statutory body established by an Act of Parliament to be the designated acquisition agency of the South African Department of Defence (DOD).

Armscor is a State-Owned Company (SOC) as contemplated in the Companies Act (Act No. 71 of 2008).

The Minister of Defence and Military Veterans is the sole shareholder and the Executive Authority of Armscor.

Armscor is governed and controlled by a Board of Directors, which reports to the Minister of Defence and Military Veterans.

ABOUT ARMSCOR

Armscor's mandate is to efficiently and effectively provide the armed forces with state-of-the-art defence matériel to conduct safety, security and peacekeeping missions in maintaining the sovereignty of South Africa. Armscor has six decades experience in acquisition, development, enhancement, sustainment and disposal of products.

The Corporation provides turnkey defence solutions and its research and development focuses on producing cutting-edge technology products. Armscor prides itself on maintaining high-quality international standards through rigorous testing and evaluation processes on all its technology management projects.

Armscor is committed to driving creativity and innovation in collaboration with its strategic partners. The Corporation provides marketing support to the SADI.

VISION

Armscor's vision is to be the strategic partner of choice for defence and security solutions.

MISSION

Armscor's mission is to meet the defence matériel, technology requirements and management of strategic capabilities of the DOD, organs of state and other entities.

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:

Figure 1: Armscor's Value System

LEADING BY EXAMPLE
We lead by example and are role models for excellence

RESULTS-DRIVEN
We go that extra mile to achieve results timeously

CUSTOMER FOCUS
Our customers are the reason for our existence and we therefore always endeavour to delight them by exceeding their expectations

CARE AND RESPECT FOR EACH OTHER
We foster diversity, value our people and their contributions and treat them equitably, fairly and with dignity, care and respect

EXELLENCE
We strive for excellence in all we do

TEAMWORK
We take joint responsibility through team work

INTEGRITY
We adhere to the highest standards of conduct and moral behaviour, and maintain the highest level of ethics in all of our actions

WHO WE ARE

Armscor aims to deliver on its mandate on time, in time, every time, in order to support peacekeeping operations in Africa and deliver defence and defence related solutions effectively and efficiently.

The Corporation endeavours to explore new defence pathways and drive innovation to develop cutting-edge solutions for peace and security in Africa while creating a defence environment that is inclusive of SMMEs participation.

Armscor aims to harness the defence sector to drive economic growth and unlock Africa's defence growth potential through partnerships with other African countries.

ARMSCOR'S MANDATE

Armscor was established in terms of the Armaments Corporation of South Africa Limited Act (Act No. 51 of 2003), as amended (called the Armscor Act). It is therefore, a 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 No. 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 objectives and mandate of Armscor are defined in the Armaments Corporation of South Africa SOC Limited Act (Act No. 51 of 2003) as follows:

The objectives of Armscor are to meet:
- the defence matériel requirements of the DOD effectively, efficiently, and economically
- the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

The functions of Armscor are defined in the Armaments Corporation of South Africa SOC Limited Act (Act No. 51 of 2003) as follows:

Corporate Profile

The Armscor Act provides that
(1) The Corporation must:
- acquire such defence matériel on behalf of the DOD, as the DOD may require
- manage such technology projects, as may be required by the DOD
- maintain a programme management system in support of acquisition and technology processes
- provide for quality assurance capability in support of:
  - the acquisition and technology processes, and
  - any other service contemplated in this section required by the DOD
- 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
- dispose of defence matériel in consultation with the instance which originally manufactured the matériel
- maintain the compliance administration system for the DOD, as required by the applicable international law, the National Conventional Arms Control Act (Act No. 41 of 2002), and the Non-Proliferation of Weapons of Mass Destruction Act (Act No. 87 of 1993)
- support and maintain such strategic and essential defence industrial capabilities, resources and technologies as may be identified by the DOD
- provide defence operational research
- maintain the defence industrial participation programme management system
- provide marketing support to defence-related industries, in respect of defence matériel, in consultation with the DOD, and the defence-related industries in question
- manage facilities identified as strategic by the DOD in the service level agreement, and
- maintain such special capabilities and facilities as regarded by Armscor not to be commercially viable, but which may be required by the DOD for security or strategic reasons.

(2) The Corporation may, with the approval of the Minister of Defence and Military Veterans:
- exploit such commercial opportunities as may arise out of Armscor's duty to acquire defence matériel or to manage technology projects; and
- procure commercial matériel on behalf of any organ of state, at the request of the organ of state in question.

Subject to the National Conventional Arms Control Act (Act No. 41 of 2002), the Regulation of Foreign Military Assistance Act (Act No. 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act (Act No. 87 of 1993), Armscor may perform any function for or on behalf of the DOD or on behalf of any sovereign state. The Minister of Defence and Military Veterans may impose such conditions in respect of the performance of a function, as may be necessary in the national interest.

ARMSCOR'S CONTRIBUTION TO NATIONAL IMPERATIVES OF GOVERNMENT

National Development Plan, Vision 2030

Armscor's mandate and strategy are linked to the objectives of South Africa's National Development Plan (NDP), Vision 2030, which sets out an integrated strategy for accelerating economic growth, eliminating poverty and reducing inequality. Faster economic growth is both a key objective of the NDP and a necessary condition to raise the resources needed to fund the country's social and economic transformation. Large-scale investment in economic infrastructure, especially in energy, transport, water and information communication technology, as well as social infrastructure, in education, health and housing, is a critical enabler.

Furthermore, the NDP, Vision 2030 and its related policies provide a national framework that will inform the envisaged contribution by National Departments to the objectives of the NDP, Vision 2030. Figure 2 indicates the aspects that form the cornerstone of the NDP, Vision 2030 to which the defence portfolio, where relevant, will contribute.

Armscor is, as all departments must be, directing its planning towards the NDP, Vision 2030. The Corporation supports Government's goals, as expressed in the NDP, Vision 2030, and contributes 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 and better use of existing resources
- Facilitating innovation and enhanced co-operation between public service and technology institutions
- Committing to procurement approaches that stimulate domestic industry and job creation
- Procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female-led enterprises, the youth, and military veterans.

The strategy is, therefore, informed by:

- a sense of urgency in delivering effective and efficient services to Armscor's clients
- positive relations between Armscor and its stakeholders
- providing a strategic pull towards which Armscor's employees can aspire
- a well-founded partnership between Armscor and the industry
- the need to meet the policy and other directives of the shareholder
- the drive to extract commercial value from Armscor's role as a technology and acquisition expert in Africa and beyond.

Figure 2: Aspects that form the cornerstone of the NDP, Vision 2030

Sustainable Development Goals

The 17 Sustainable Development Goals (SDGs), developed to support the United Nations 2030 Agenda, are aimed at ending poverty and inequality, protecting the planet, and ensuring peace and prosperity for all. These SDGs and targets will stimulate action in areas of critical importance for humanity and the planet.

- Armscor, by virtue of its legislative mandate and inherent defence capabilities, indirectly supported SDG 16. The Corporation aimed to “Promote peaceful and inclusive societies for sustainable development” and “provide access to justice for all, and build effective, accountable and inclusive institutions at all levels” into the future trajectory of defence. Armscor also participated in the work established by Stats SA by providing statistics of the SDGs as and when required, and through its mandate and inherent acquisition and procurement capabilities.
- Armscor, because of its mandate, indirectly supported selected SDGs into the future trajectory of defence. Armscor supports Goal 4 by granting bursaries and donations to schools of previously disadvantaged communities, as well as Goal 5 by adhering to its Employment Equity (EE) Policy, whereby Armscor aimed to grant 23 bursaries per year.
- Corporate Governance is enshrined in the King IV Report on Corporate Governance for South Africa. Armscor embraces the principles in this report and continues to strengthen its departmental role and function in the governance, risk and compliance functions through ethics and integrity.
- The implementation of the Public Service Integrity Management Framework in all government departments also informs Armscor's Code of Conduct. The approval and implementation of Armscor's Code of Conduct during the 2016/17 financial year demonstrates its commitment to the highest ethics and integrity aspirations. Armscor also has the mechanisms, as stated below, to facilitate ethical execution of its mandate through:
  - The Audit and Risk Committee
  - The Risk Management Register, which also lists actions to mitigate risks
  - Regularly conducted internal audits, of divisions and internal controls
  - Continuous management of issues relating to corruption and fraud, ranging from awareness training to the structured reporting of incidents through the “whistle-blowing” mechanism and other established departmental channels
  - Continuously refined organisational financial processes, systems, and policies, with the view to ensure alignment with the Public Finance Management Regulatory Framework, in order to improve service delivery.

Figure 3: Sustainable Development Goals

WHO WE ARE

Armscor's Strategy

Armscor's sustainability strategy was designed to respond to changing client needs, growing demand to improve developmental impact, persistently difficult economic conditions and an increasingly competitive environment. The strategy aligns with global trends, which have seen the world reviewing their purpose and mission to increase their developmental impact.

As a state-owned company, Armscor is strategically positioned between African governments, the private sector and fellow local and international defence industry companies. The common objective to meet the defence matériel, defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

Developing strategic partnerships is integral to the value that Armscor delivers. Leveraging these partnerships to maximise value considerably extends the scope of Armscor's potential development impact.

Armscor's Strategy On-Time, In-Time: Towards a Sustainable Future, places emphases on creating innovative pathways for a sustainable future, as well as to build, strengthen and enhance relationships.

Employees are key drivers of the strategy and are required to fully understand the gist of the strategy in order to implement it successfully and become proud brand ambassadors. Furthermore, employees are encouraged to work together to build new sustainable pathways towards sustainable defence solutions.

Due to the current economic downturn, the budget of the Corporation will be hugely impacted. The DOD's reduced budget requires Armscor to find ways of being financially viable and independent. In essence, Armscor should explore new revenue streams and robustly exploit its capabilities to its current and prospective clients such as SADC.

In order to move ahead exponentially, Armscor should improve on its decision making process and adopt a flexible system that will be responsive to urgent requirements from all clients. Efficient and effective delivery will contribute greatly in reaching the overall goal of moving Africa towards peace, stability and growth.

Key Strategic Outputs

Revenue Generation

Increase in net realisable revenue to ensure that Armscor generates sufficient income to meet its funding needs in the short to medium term.

Cost Management

Strategic capability maintenance, “while reducing costs”, to ensure that Armscor remains sustainable to meet its funding needs in the near to medium term.

Effective and Efficient Delivery

Reducing the turnaround time of core customer-facing and internal processes, thereby strengthening stakeholder relationships.

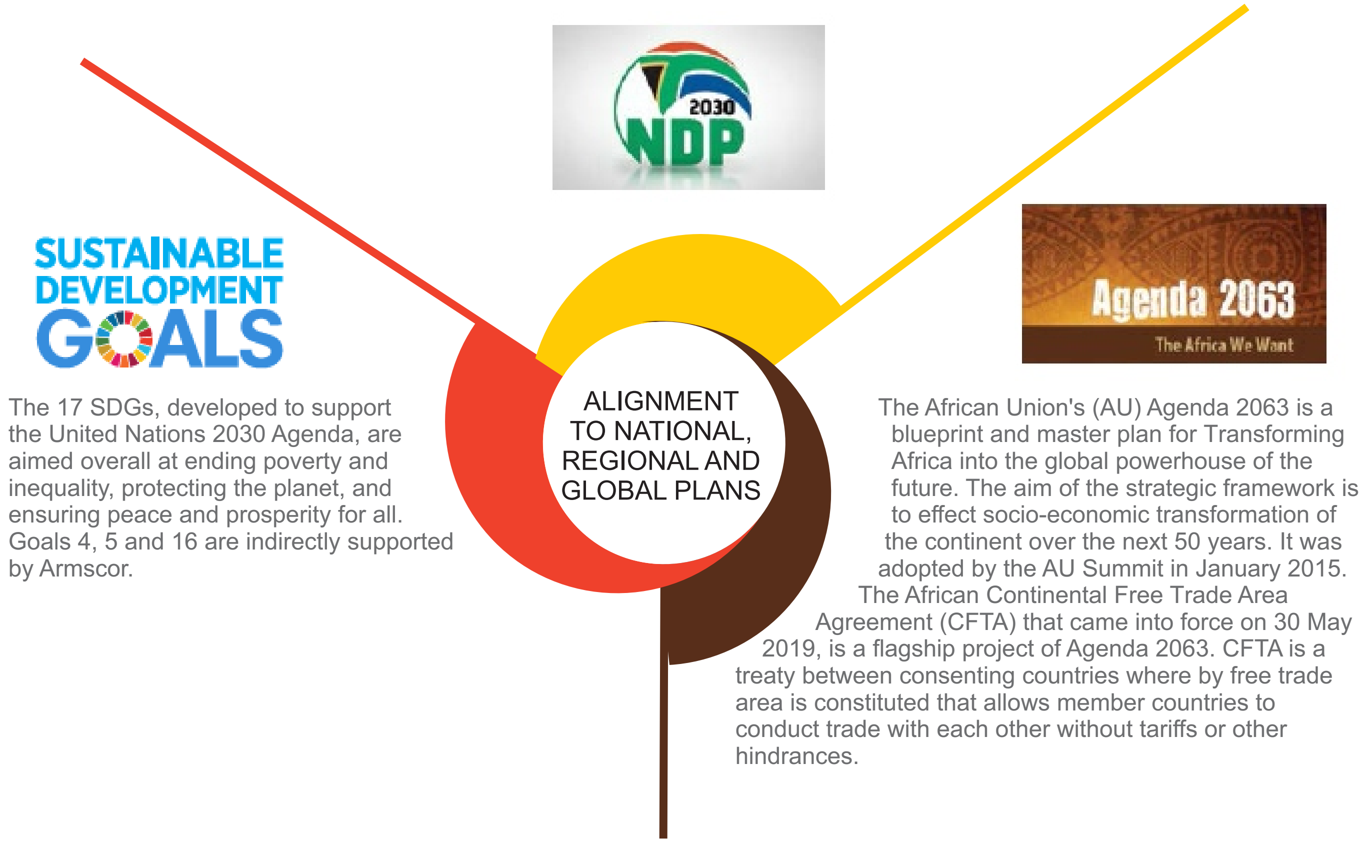
Stakeholder Management

Developing and maintaining long-lasting, strategic relationships with key stakeholders.

Armscor's contribution to NDP, Vision 2030, SDGs and AU AGENDA 2063

Armscor's mandate and strategy are linked to the objectives of South Africa's NDP, Vision 2030, which sets out an integrated strategy for accelerating economic growth, eliminating poverty and reducing inequality. Faster economic growth is both a key objective of the NDP and a necessary condition to raise the resources needed to fund the country's social and economic transformation. Armscor directs its planning towards the NDP, Vision 2030 and the Corporation supports government's goals. Priority 6 and 7 are directly supported by Armscor.

Figure 4: NDP, Vision 2030, SDG and AU agenda 2063



Armscor's Stakeholders

Stakeholder engagement is a critical element of Armscor's business. Armscor's stakeholders contribute to its value-creation process, which is articulated through projects' business processes and procedures. Across the holistic end-to-end value chain Armscor fulfills many roles: acquisition, procurement, maintenance, technology know-how, which ranges from technology services to disposal of products.

The Corporation prides itself on long standing and well established relationships with various government departments for partnering in service delivery.

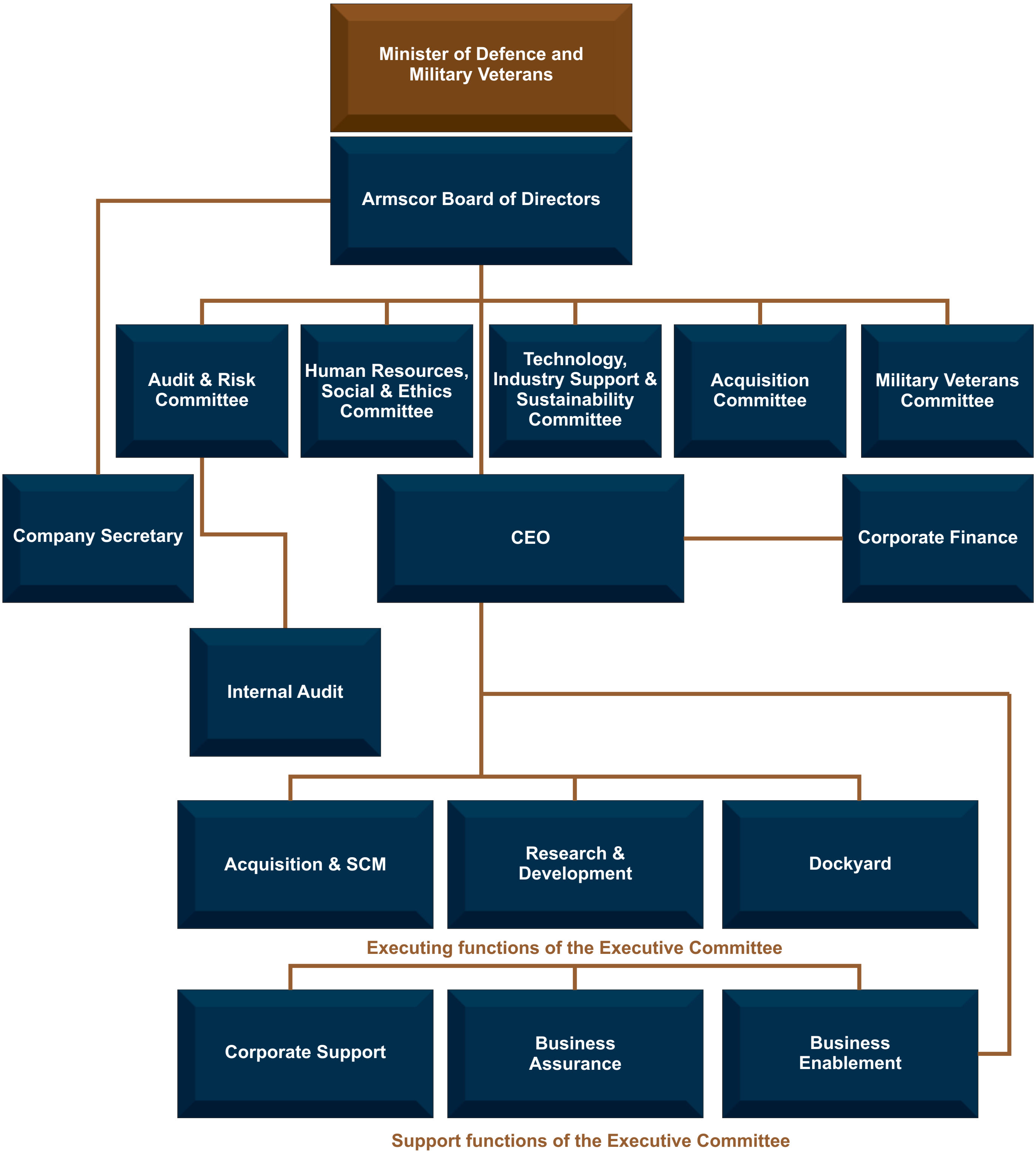
Strategic partnerships are valued and considered as a key strategic advantage. As a public entity, accountable to the public, the Corporation will ensure that its privileged position be utilised as a bridge between the private and the public sectors to drive impact.

Table 1: Armscor's Stakeholder List

Stakeholder	Stakeholder expectations	How Armscor engages
Regulators: • Shareholder • Government Departments/SOCs • Parliamentary Committees • NCACC	• Delivery on mandate • Governance • Leadership and Strategic direction	• Shareholder's Compact • Annual Report • Corporate Plan • Corporate Strategy • AGM • Portfolio Committee meetings • Council on Defence and Plenary on Defence Staff Council • NDIC meetings
Clients: • SANDF • SAPS • DCS • Government/Departments/ Institutions	• Timeous delivery of products and services • Value for money	• SLA • MoA • Direct customer engagement • Customer feedback and reports/presentations • Stakeholder satisfaction survey • Participation in industry forums and committees • Social events
Employees: • Internal • Labour Unions	• Fair employment standards and remuneration • Career prospects • Communication	• Employment Equity committee • Marketing support and sustainability team • Reward and recognition • Training and skills development initiatives • Stakeholder satisfaction survey • Newsletters • Intranet/Internet
Defence Industry: • South African Defence Industry • International Defence Industry	• Transparency and fairness • Communication	• Regular board engagement with industry association board • Industry forums and committees • Export marketing support initiatives • Stakeholder satisfaction survey • International dignitaries engagements • Social events
Strategic Business Partners: • SOCs • Research and Academic Institutions • International Government Organisation	• Governance • Transparency	• MOU • Bilateral/collaborative engagements
General Public: • Communities	• Employment opportunities • Socially and environmentally responsible actions	• Employment • Awareness campaigns • CSI initiatives
Media: • Local and international media	• Transparency • Honesty • Accessibility	• Media releases • Media briefings • Media responses

1.6 ORGANISATIONAL STRUCTURE

Figure 5: Armscor/DOD Organisational Structure



1.7 BOARD MEMBERS

The Board is appointed by the Minister of Defence and Military Veterans. The management and control resides with the Board of Directors, under the leadership of the non-executive Chairperson and the Deputy Chairperson. To execute its responsibilities effectively and maintain accountability, the Board established the following Committees:

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

BOARD OF DIRECTORS

Name:	**Dr PD Dexter - Chairperson**
Gender:	Male
Race:	White
Academic Qualifications:	PhD MPhil BA
Areas of Expertise:	Project Management Strategic Leadership Financial Management Research and Analysis Human Resources Change Management
Position on Armscor Board:	Chairperson of the Board
Appointment Date:	1 December 2020
Positions on other Boards:	South African Weather Service Africa Energy Corporation Global Beef Emerald Panther Investment NIH Subsidiaries Resources and Logistics NEHAWU General Partners MPS Cloud NIH Petroleum Lighthouse Emporium Primary Co-Operative Limited Mpower Music and Sound Primary Co-Operative Limited Mpower Five Point Films Primary Co-Operative Limited MAARIFA Resources Opiconsivia Trading 255 Africa-China Friendship Association Therez House Company African-Chinese People's Friendship Association Orbis Mining NEHAWU Investment Partners NEHAWU Investment Managers Agrowvest NEHAWU Investment Company Tailspin Trading 23 Maxshell 121 Investments Ivyjewel 30 Emerald Panther Investments 7 NEHAWU Investment Company SPV Boshof Solar Power (RF)

WHO WE ARE

Name:	**Mr MS Motimele[1] – Deputy Chairperson**
Gender:	Male
Race:	African
Academic Qualifications:	Management Development Programme Certificate in Finance Management MBA
Areas of Expertise:	Communication and Public Relations Labour Relations Intergovernmental Relations Legislative Experience Integrated Management System
Position on Armscor Board:	Deputy Chairperson of the Board Chairperson of the Military Veterans Committee Member of Acquisition Committee Member of the Technology, Industry Support and Sustainability Committee
Appointment Date:	27 March 2019
Position on other Boards:	MS Motimele Marketing and Consulting Pty (Ltd) AfriSteel Pty (Ltd) Direla Investments Bunang Food Security

Name:	**Adv. SP Mbada - Chief Executive Officer**
Gender:	Male
Race:	African
Academic Qualifications:	B Juris BA (Hons) MAP LLB LLM
Areas of Expertise:	Strategic Management Business Restructuring Mediation / Negotiation Training / Change Facilitation Mentorship HR Management IR Management Training Management
Appointment Date:	1 September 2009
Position on Executive Committee:	Chief Executive Officer
Position on Armscor Board:	Executive Director of the Board Member of the Technology, Industry Support and Sustainbility Committee Member of the Human Resources, Social and Ethics Committee Member of the Acquisition Committee Member of the Militaty Veterans Committee
Positions on other Boards:	Directorships: Armscor Defence Institutes (Pty) Ltd *(Dormant)* Erasmusrand Properties (Pty) Ltd *(Dormant)* Sportrand (Pty) Ltd *(Dormant)* Oospark (Pty) Ltd *(Dormant)*

Note: [1] Term Expired

WHO WE ARE

Name:	**Mr JG Grobler - Chief Financial Officer**
Gender:	Male
Race:	White
Academic Qualifications:	CA (SA) MBL MCom (Tax)
Areas of Expertise:	Financial Management Corporate Governance
Appointment Date:	1 July 1990
Position on Executive Committee:	Chief Financial Officer
Position on Armscor Board:	Executive Director of the Board Member of the Technology, Industry Support and Sustainbility Committee Member of the Human Resources, Social and Ethics Committee Member of the Acquisition Committee Member of the Militaty Veterans Committee Positions on other Boards: Directorships: Armscor Defence Institutes (Pty) Directorships: Armscor Defence Institutes (Pty) Ltd *(Dormant)* Erasmusrand Properties (Pty) Ltd *(Dormant)* Sportrand (Pty) Ltd *(Dormant)* Oospark (Pty) Ltd *(Dormant)*

Name:	**Ambassador TJ Ndhlovu**
Gender:	Female
Race:	African
Academic Qualifications:	Bachelor of Arts Political Science Bachelor of Science Public Administration Master of Arts Counselling Psychology Executive Leadership Training Programme Middle Management Course Heads of Mission Orientation Course
Areas of Expertise:	Foreign Relations
Position on Armscor Board:	Non-Executive Director of the Board Member of the Human Resources, Social and Ethics Committee Member of Technology, Industry Support and Sustainability Committee
Appointment Date:	1 May 2017 (re-appointed 1 December 2020)
Positions on other Boards:	None

Name:	**Dr RC Lubisi**
Gender:	Male
Race:	African
Academic Qualifications:	Bachelor of Science Higher Diploma in Education Bachelor of Education Doctor of Philosophy
Areas of Expertise:	Project Management Strategic Management
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Technology, Industry Support and Sustainability Committee Member of the Audit and Risk Committee
Appointment Date:	1 December 2020
Position on other Boards:	Chairperson for Morar Incorporated Chair: HSRC Member: National Lotteries Commission Maziwa Holdings ThemoPharm

WHO WE ARE

Name: **Maj Gen (ret) LC Pepani**[2]
Gender: Male
Race: African
Academic Qualifications: Diploma in Social Sciences
Executive National Security Programme
Certificate in Public Relations Management
Executive Course in Peace Operations
Areas of Expertise: Foreign Liaison
Transformation
High level negotiation and facilitation
Security and Political analysis
Security and defence management
Position on Armscor Board: Non-Executive Director of the Board
Member of the Human Resources, Social and Ethics Committee
Member of the Military Veterans Commiittee
Member of the Acquisition Committee
Appointment Date: 1 December 2020
Positions on other Boards: None

Name: **Ms F Skweyiya-Gushu**
Gender: Female
Race: African
Academic Qualifications: Post Graduate Diploma
Masters in International Political Communications
Areas of Expertise: Communications and Marketing
Campaigning
Research
Project Management
Media Relations
Public Diplomacy
Position on Armscor Board: Non-Executive Director of the Board
Member of the Audit and Risk Committee
Member of the Technology, Industry Support and Sustainability Committee
Appointment Date: 1 December 2020
Positions on other Boards: 20 Media Incubation

Name: **Mr TM Sukazi**
Gender: Male
Race: African
Academic Qualifications: B. Proc. (UNISA)
LLB (UNISA)
LLM (UCT)
Areas of Expertise: Corporate Governance and Regulatory
Mergers and Acquisitions
Corporate and Commercial Law
Banking and Finance
Position on Armscor Board: Non-Executive Director of the Board
Chairperson of the Acquisition Committee
Member of the Audit and Risk Committee
Appointment Date: 1 December 2020
Positions on other Boards: Social Housing Regulatory Authority Council Member

Note:[2] Disqualified in terms of Section 8 (a) of the Armscor Act No. 51 of 2003

WHO WE ARE

Name:	**Ms R Matenche**
Gender:	Female
Race:	African
Academic Qualifications:	CA (SA) Bachelor of Accounting
Areas of Expertise:	Financial Management Taxation Auditing Strategy Gender transformation
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Audit and Risk Committee Member of the Human Resources, Social and Ethics Committee
Appointment Date:	1 December 2020
Positions on other Boards:	South African Institute of Chartered Accountants (SAICA) Social Housing Regulatory Authority (SHRA) Commission for Gender Equality (CGE - Chairperson of Audit and Risk)

Name:	**Ms PN Mashinini**
Gender:	Female
Race:	African
Academic Qualifications:	Post Graduate Diploma Diploma in Project Management Executive Management Development Programme Master's in Business Administration
Areas of Expertise:	Corporate Services Strategy Human Resources Transformation Performance Management Operations Management
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Human Resources, Social and Ethics Committee Member of the Acquisition Committee
Appointment Date:	1 December 2020
Positions on other Boards:	Thebe Investment Company Trustee at Bathobatho Trust

Company Secretary

Name:	**Ms FM Kumalo**
Gender:	Female
Race:	African
Academic Qualifications:	MBA GradCSSA BCom
Areas of Expertise:	Governance Strategy Human Resources
Appointment Date:	1 April 2016
Position on Armscor Board:	Company Secretary
Positions on other Boards:	None

1.8 EXECUTIVE MANAGEMENT

The main function of the office of the Chief Executive Officer is the overall management of the Corporation. The responsibilities include, but not limited to providing strategic direction and leadership, formulating policies, directing operations of the Corporation, and developing strategic plans to achieve the Corporation's mission and objectives.

In undertaking these responsibilities, the Chief Executive Officer is supported by an executive management structure, called the Executive Committee. All business units are represented at this level.

Name:	**Adv. SP Mbada - Chief Executive Officer**
Gender:	Male
Race:	African
Academic Qualifications:	B Juris BA (Hons) MAP LLB LLM
Areas of Expertise:	Strategic Management Business Restructuring Mediation / Negotiation Training / Change Facilitation Mentorship HR Management IR Management Training Management
Appointment Date:	1 September 2009
Position on Executive Committee:	Chief Executive Officer
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Name:	**Mr JG Grobler - Chief Financial Officer**
Gender:	Male
Race:	White
Academic Qualifications:	CA (SA) MBL MCom (Tax)
Areas of Expertise:	Financial Management Corporate Governance
Appointment Date:	1 July 1990
Position on Executive Committee:	Chief Financial Officer
Position on Armscor Board:	Executive Director of the Board Member of the Technology, Industry Support and Sustainbility Committee Member of the Human Resources, Social and Ethics Committee Member of the Acquisition Committee Member of the Militaty Veterans Committee
Positions on other Boards:	Directorships: Armscor Defence Institutes (Pty) Ltd *(Dormant)* Erasmusrand Properties (Pty) Ltd *(Dormant)* Sportrand (Pty) Ltd *(Dormant)* Oospark (Pty) Ltd *(Dormant)*

WHO WE ARE

Name:	**Mr M Teffo**
Gender:	Male
Race:	African
Academic Qualifications:	Bachelor of Law LLB Higher Diploma in Tax Law Masters in Law (LLM)
Areas of Expertise:	Governance Legal/Risk and Compliance Strategic Leadership and Management
Appointment Date:	1 September 2003
Position on Executive Committee:	Group Executive: Acquisition and SCM

Name:	**Dr NM Mkaza**
Gender:	Male
Race:	African
Academic Qualifications:	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 Management in the Science and Technology Environment
Appointment Date:	1 June 2016
Position on Executive Committee:	Group Executive: Research and Development

Name:	**Adv. NB Senne**
Gender:	Male
Race:	African
Academic Qualifications:	B Juris LLB Bar Exam (Society of Advocates)
Areas of Expertise:	Governance Legal/Risk and Compliance Strategy
Appointment Date:	1 May 2011
Position on Executive Committee:	Group Executive: Business Assurance

Name:	**Adv. N Mvambo**
Gender:	Male
Race:	African
Academic Qualifications:	B Juris LLB Advanced Diploma Project Management Management Advancement Programme (MAP)
Areas of Expertise:	Labour Relations Management HR Management Projects Management and Disputes Management
Appointment Date:	1 January 2013
Position on Executive Committee:	Group Executive: Corporate Support

WHO WE ARE

Name:	**Mr A Mothobela**
Gender:	Male
Race:	African
Academic Qualifications:	Master's in Business Leadership BSc Engineering: Electrical Certificate in Project Management Executive National Security Programme (ENSP)
Areas of Expertise:	Strategic Management Engineering Business Development
Appointment Date:	1 March 2001
Position on Executive Committee:	Acting Group Executive: Business Enablement

Name:	**Dr H Van Rensburg**
Gender:	Male
Race:	White
Academic Qualifications:	DBL MBL BSC (Hons) HDip Eng (Mech)
Areas of Expertise:	Operations Management Operations Research Strategic Management Manufacturing Engineering
Appointment Date:	1 April 1997
Position on Executive Committee:	Executive Manager: Dockyard

SECTION 2
PERFORMANCE INFORMATION

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

PERFORMANCE INFORMATION

2.1 PERFORMANCE AGAINST GOALS 2021/22

Operational objectives for the 2021/22 financial year

Armscor's Corporate 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 Service Level Agreement (SLA) with the DOD. The second category measures the attainment of the strategic outputs of the Corporation.

Performance against goals

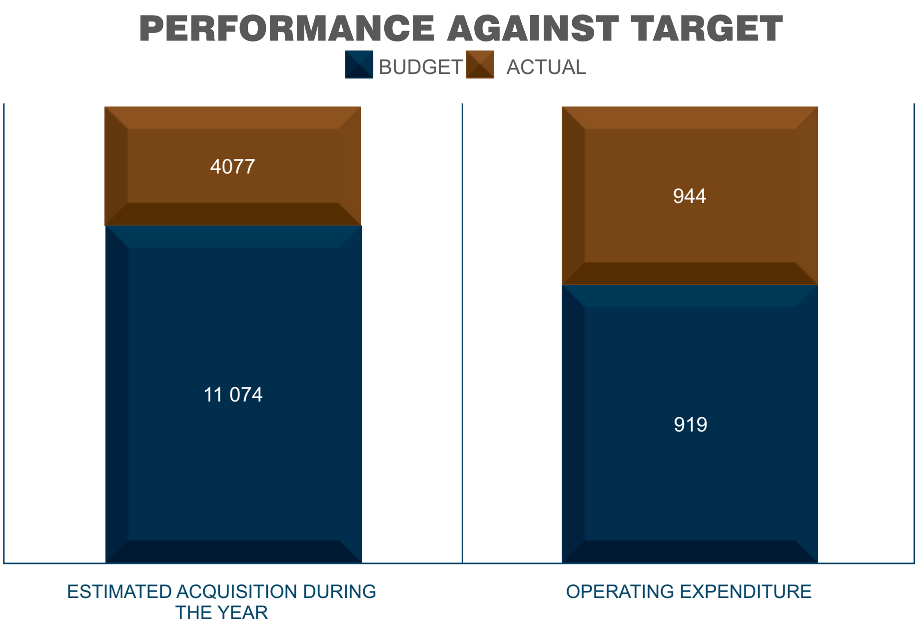
In addition to the above, Armscor uses an overall efficiency measure, which is the cost of acquisition. This measure reflects the ratio of operating cost incurred versus the acquisition cash flow during (industry can deliver as contracted) the reporting period based on the total forecasted acquisition activities (revised baseline). A cost of 8,3% was budgeted for the 2021/22 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.

Table 2: Acquisition cost

Acquisition cost:	2021/22	2020/21	2019/20
Budgeted acquisition cost based on calculated cash flow:	8,3%	8,71%	8,87%
Acquisition cost based on actual cash flow:	23,16%	17,49%	15,80%
Note: Budgeted figure was a result of lower actual expenditure due to reasons as stated in the performance measurement.			

The actual operating expenditure of R944,0m represents a 2,8% increase from the budgeted operating expenditure of R918,6m, which is mainly due to the cost of voluntary severance packages paid in the current financial year. The acquisition cost was similar to previous financial years, significantly influenced by the industry's non-ability to execute the contracted work order for cash flow to take place.

Figure 6: Performance against goals



PERFORMANCE INFORMATION

Tabled Corporate Plan on 12 March 2021

Performance against the service level agreement goals is as follows (as per approved Corporate Plan):

Goal 1: Cat 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 service level agreement 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.

Table 3: Performance against the service level agreement goals

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

Output description (Projects)	Annual target 2021/22	Achievement against target	Performance against output
1.1 Percentage of DOD capital requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Submission of a top-level project schedule (Planning Document) to DMD within 14 working days. • 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%	100%	DOD requirements to the value of R90,03m were received. Armscor committed R90,03m of the above mentioned funds resulting in an achievement of 100%. ***Target 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 that is due to the user or the DOD will be done with the consent of the DOD.)	95%	107,42%	The planned cash flow for the first revision was R1 748,72bn. Armscor managed to realise cash flow to the value of R1 795,75bn resulting in an achievement of 102,69%. Adjustments for factors beyond Armscor's control amounted to R77,07m. This resulted in a final achievement of 107,42%. ***Target exceeded.***

Goal 2: System support acquisition and procurement

Output description (Operational Funds)	Annual target 2021/22	Achievement against target	Performance against output
2.1 Percentage of DOD system support and procurement requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Submission of a top-level project schedule (Planning Document) to DMD within 14 working days. • 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%	96%	DOD requirements to the value of R985,34m were received. Armscor committed R945,95m of the above mentioned funds resulting in an achievement of 96%. ***Target exceeded.***
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 that is due to the user or the DOD will be done with the consent of the DOD.)	95%	103,20%	The planned cash flow for the first revision was R3 168,72bn. Armscor managed to realise cash flow to the value of R2 281,11bn resulting in an achievement of 71,99%. Adjustments for factors beyond Armscor's control amounted to R958,41m. This result in a final achievement of 103,20%. ***Target exceeded.***

Goal 3: Schedule placement

Output description	Annual target 2021/22	Achievement against target	Performance against output
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.)	95 days for shortened process COTS items.	78	An average of 78 days taken from receipt of requirement to placement of a contract. ***Target exceeded.***
	120 days for non-COTS and Product Support GDA procurement.	74	An average of 74 days taken from receipt of requirement to placement of a contract. ***Target exceeded.***
	145 days for SDA acquisition programmes	128	An average of 128 days taken from receipt of requirement to placement of a contract. ***Target 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 output for Armscor, and the target is reflected in the following table:

Output description	Annual target 2021/22	Achievement against target	Performance against output
4.1 Value of DIP credits to be granted to overseas suppliers. Active Portfolio:	R129,95m	R260,04m	DIP credits to the total value of R260 039 603 have been awarded during the 2021/22 financial year. ***Target exceeded.***

Goal 5: Management and execution of defence technology, research, test and evaluation

Output description	Annual target 2021/22	Achievement against target	Performance against output
5.1 Percentage of execution of technology requirements. (Armscor Research and Development to achieve contractual milestones / deliveries as per agreed Memoranda of Agreement and orders received for the financial year.)	95%	97,86%	DOD orders to the value of R129 410 178 have been awarded during the 2021/22 financial year. Amount invoiced: R126 641 655 and executed during the year. ***Target exceeded.***

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

Output description (Projects)	Annual target 2021/22	Achievement against target	Performance against output
6.1 Percentage of contractual milestones executed. (Adherence to project contractual milestone planned dates as approved in project plan.)	90%	82%	Measurement is for projects taken (average) on by the Dockyard in accordance with available resources and under full Dockyard management control. Work conducted on the following vessels were signed off by the SA Navy: • SAS AMATOLA DED 2020 • SAS MANTANTISI DED 2021 • SAS AMATOLA EC 53 Rigging Services 2021 • SAS CHARLOTE MAXEKE REFIT • ADHOC Work Major contributing factors were, acceptance and/or approval delay, awaiting other repair organisation, Failure Mode and Effect Analysis (FMEA) or failure to investigate, insufficient spares and poor and/or limited failure description. ***Target not achieved.***

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

Output description (Projects)	Annual target 2021/22	Achievement against target	Performance against output
6.2 Percentage of compliance to project finance. Manage project finances in accordance with approved financial authorities and cash flow plan.	90%	50%	An invoice amounting to R3,9m could not be claimed from the FA due to the closure of the payment system from the DOD. The actual performance percentage for cost incurred is 71% considering the unclaimed expenditure. The balance on the FA was deferred to the 2022/23 financial year. ***Target not achieved.***
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 requested were delivered and signed off by the SA Navy. ***Target 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 were provided and signed off by the SA Navy. ***Target exceeded.***
6.5 Percentage compliance with quarterly report timelines. (Supply quarterly reports to Flag Officer Fleet 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. ***Target exceeded.***

Armscor's Strategic Outputs:

In order to best achieve the Armscor Strategy, Armscor reviewed its Strategic Outputs and aligned them to the following four Strategic Outputs as reflected in Table 4.

Table 4: The Four Strategic Outputs

REVENUE GENERATION	Increase in net realised revenue to ensure that Armscor generates sufficient income to meet its funding needs in the Short-to-Medium term.
COST MANAGEMENT	Strategic capability maintenance, "while reducing costs", to ensure that Armscor remains sustainable to meet its funding needs in the Near-to-Medium term.
EFFICIENT & EFFECTIVE DELIVERY	Reducing the turnaround time to core customer-facing and internal processes thereby strengthening stakeholder relationships.
STAKEHOLDER MANAGEMENT	Developing and maintaining long-lasting, strategic relationships with key stakeholders.

Table 5: Performance against Group Strategic Outputs

Progress / compliance with the approved Group Strategic outputs are stated below.

Strategic Output 1: Revenue Generation

No.	Output description	Annual target 2021/22	Achievement against target	Performance against output
1.1	Generate additional realisable revenue			
1.1.1	Group Revenue (transfer payment, other income, and finance income).	R1 324,3m	R1 429,4m	A total group revenue of R1 429,4m was received. ***Target exceeded.***
1.1.2	Revenue from existing facilities of Armscor Research and Development.	R310m	R238,3m	Total income generated (excluding transfer payment) is R238,3m. ***Target exceeded.***
1.1.3	Revenue generated from the Business Enablement Business Unit.	R33,3m	R17,6m	A total of R17,6m was realised. ***Target exceeded.***

Note: Group revenue targets were exceeded due to higher interest income realised from higher available funds due to lower fixed assets procured than was planned for. Other income was also higher as the rental received from DPWI includes escalated rentals premiums and amounts previously provided for as bad debts.

Strategic Output 2: Cost Management

No.	Output description	Annual target 2021/22	Achievement against target	Performance against output
2.1	Strategic maintenance and reduction of capital and operating costs			
2.1.1	Improve net financial position.	R3,1m surplus	R12,5m surplus	Surplus of R12,5m was realised. ***Target exceeded.***

Strategic Output 3: Efficient and Effective Delivery				
No.	**Output description**	**Annual target 2021/22**	**Achievement against target**	**Performance against output**
3.1	Effective Technology and IP Management			
3.1.1	Development and Test Services: Percentage compliance with Technology Development Master Plan, in accordance with SLA between Armscor and DOD.	90%	99,72%	Orders placed: Budgeted target: R488,06m Orders placed: R486,71m Achievement: 99,72% ***Target exceeded.***
3.1.2	Completion of IP requests in terms of Armscor process.	80%	100%	1 request for IP exploitation was received and processed. ***Target achieved.***
3.1.3	Maintain a complete and comprehensive IP Register, which ensures the maintenance of an unqualified audit opinion, in respect of Armscor and DOD Intangible Capital Assets under Armscor's management.	31 March 2022	31 March 2022	Complete and comprehensive IP register maintained. ***Target achieved.***
3.1.4	Commercialise one IP Technology	31 March 2022	21 April 2021	The approval to commercialise one IP Technology was obtained on 21 April 2021. ***Target exceeded.***
3.2	**Infrastructure Renewal**			
3.2.1	Renew application systems to improve effectiveness and efficiency: • Appoint an ERP Service Provider.	31 May 2021	-	The RFB process was completed. The Board approved the submission for order placement on 1 December 2021 subject to clarifying the issue regarding the 30% subcontracting with National Treasury. The response from National Treasury was received and Armscor was considering seeking legal opinion on how to proceed with the process. ***Target not achieved.***
	• Implementation of the approved application system renewal plan.	80%	0%	Only the payroll solution was implemented. The delays relating to ERP means delayed replacement of some legacy application systems (e.g. KBA, Finbis, Cyborg, etc.). ***Target not achieved.***

Strategic Output 3: Efficient and Effective Delivery				
No.	**Output description**	**Annual target 2021/22**	**Achievement against target**	**Performance against output**
3.2.1	• Implement IT infrastructure Renewal in line with Business Continuity Plan in times of crises.	31 March 2022	17 March 2022	3 infrastructure projects were identified to support the Business Continuity Plan: • The procurement configuration and commissioning of 4 backup servers has been completed. • Implementation of Storage at the head office has been completed. • The submission for order placement for the United Communication System (UCS) was approved by the Board on 17 March 2022. ***Partially achieved.***
3.2.2	Improve Information Security: 80% Implementation of the approved security architecture plan.	30 June 2021	1 December 2021	80% of the Audit Finding relating to the approved Cybersecurity Capability Implementation Plan were closed. Namely the divisional structure, Cybersecurity Assessment, Senior Management positions have been filled, Cybersecurity Governance documents have been improved. ***Target achieved later than planned.***

Strategic Output 4: Stakeholder Management				
No.	**Output description**	**Annual target 2021/22**	**Achievement against target**	**Performance against output**
4.1	**Stakeholder Engagement Strategy**			
4.1.1	Conduct integrated employee engagement survey and determine new baseline (2020).	% Improvement based on 2020/21 baseline	% Improvement based on 2020/21 baseline remained unchanged	The new baseline was established in 2020/21. The % improvement remained unchanged. An Employee Engagement Survey implementation plan 2021 - 2023 was promulgated to address focused areas to improve employee engagement levels. Thereafter, the survey will be conducted. EXCO approved the survey to be conducted every three years. ***No opportunity to perform.***

Strategic Output 4: Stakeholder Management				
No.	**Output description**	**Annual target 2021/22**	**Achievement against target**	**Performance against output**
4.2	**Transformation of Corporation**			
4.2.1	Achievement of approved Equity Plan that is directed towards: • increasing black representation	83%	87,05%	Overall, black representation totals 87,05%. ***Target exceeded.***
	• improving female representation.	40%	40%	Overall, female representation totals 40%. ***Target achieved.***
4.2.2	Controllable staff turnover in technical positions, excluding retirements (less than or equal to 4%).	<4%	2,03%	There were 11 (out of 542 technical positions) resignations for the year. ***Target exceeded.***
4.2.3	Skills Development Programme: • Provision of bursaries for full-time studies.	23	29	29 students were enrolled on the Armscor Bursary Scheme as at 31 March 2022. ***Target exceeded.***
	• Contracting and development of graduate as interns (Talent Development Programme) (number of employees in programme).	30	31	31 candidates were appointed into the Talent Development Programme. ***Target exceeded.***
4.2.4	Succession Planning Development: Percentage compliance with Succession Planning Development (key identified positions).	80%	83,01%	83,01% compliance with the development plans as contracted with successors. ***Target exceeded.***
4.2.5	Total number of people with disabilities.	28	23	The total number of people with disability appointed amounts to 23. ***Target not achieved.***

PROGRESS ON ARMSCOR'S RESPONSE TO THE COVID-19 PANDEMIC

Background

Amid the world-wide escalation of the COVID-19 pandemic, the President declared a National State of Disaster in terms of the Disaster Management Act, 2002 (Act No. 57 of 2002) on 15 March 2020 and announced a package of extra-ordinary measures to combat this public health emergency. The President directed the SANDF to deploy forces, in cooperation with the SAPS, and in support of other Government departments, to ensure that the measures as announced were implemented throughout the country. The SANDF deployed under Op NOTLELA in various parts of the country from 27 March 2020 to 30 September 2020, as ordered.

The Minister of Defence and Military Veterans deployed the SANDF by means of a Ministerial Directive, under Op VIMBA, again from 23 June 2021 until 30 September 2021, to provide tertiary medical care in Gauteng in support of the Department of Health.

Support to the DOD and Other Government Departments

Armscor supported the DOD to procure some medical equipment for SAHMS and some urgent components such as tyres and batteries for the SA Army, during the reporting period.

Furthermore, Protechnik became the testing centre for the testing of particle filtering masks (FFP2, FFP3 and KN95) and surgical masks nationwide, including neighbouring countries. This confirms that funding from the DOD resulted in the value added expertise. The decontamination domain within Protechnik also utilised its existing defence capabilities towards reducing and controlling the spread of the COVID-19 pandemic. Protechnik designed, tested and evaluated hand sanitiser and surface disinfectant formulations with strict adherence to guidelines from the World Health Organisation. The Protechnik hand sanitiser and surface disinfectant products passed the formulation assessment conducted by the South African Bureau of Standards (SABS).

As part of the Social Relief Programme, Armscor reached out to the residents of MaMojela Park informal settlement situated outside Lephalale in Limpopo Province. Armscor partnered with the Waterberg Environmental Justice Forum, a non-profit organisation operating in the area, to deliver food parcels, sanitisers, masks and hygiene products to approximately 200 residents during the reporting period.

EXECUTING FUNCTIONS

ACQUISITION AND SCM

RESEARCH AND DEVELOPMENT

NAVAL DOCKYARD

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 and Military Veterans.

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for defence matériel 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 industrialization and manufacturing of mature products and product systems that fully meet the stated user requirements, 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. The first 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 materièl. The second category is the 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.

During the reporting period, Armscor managed and executed contracts to a total order value of R12.424 billion for the 2021/22 period. The total order value comprises values of orders placed during the financial year for execution during the year as well as the values of multi-year orders that were allocated to the year under review. The total acquisition and procurement portfolio furthermore, comprises of two primary components, being technology and capital acquisition contracts which amounted to R8.464 Billion, and maintenance and support contracts which amounted to R3.960 billion.

The funding allocation for projects on the Special Defence Account (capital budget) has been continually decreasing over the past four years. During the reporting period, there were only 6 Capital projects with a funding allocation for the year (down from 15 during the previous year), although a total of 24 Capital projects were being executed due to funds being carried over from the previous financial year. Only projects that had already been contracted or partially contracted for execution were funded. As these projects are completed, the number of projects being executed will continue to decline with no additional allocation currently visible from the Special Defence Account. This decrease in the number of funded projects on the Special Defence Account will have a significant impact on Armscor, as it impacts not only on workload of experienced Programme Managers, but also on Armscor's ability to provide exposure and experience to Programme Managers with respect to managing of complex projects.

STATUS OF OBJECTIVES

The continued reduction in the DOD budget allocation and specifically the significant reduction in capital projects funded from the Special Defence Account, has necessitated Armscor to evaluate the impact of this continued and significant change in its operating environment. In this regard, the Acquisition and SCM Business Unit developed a new strategy at the onset of the 2021/22 financial year. The new strategy was approved by the Acquisition Committee of the Board of Directors and 9 strategic initiatives were identified. These initiatives focused mainly on amongst others improving and extending the value-add to the DOD, updating and streamlining processes to ensure faster turnaround times for execution of DOD requirements, training of employees: and a greater focus on providing more efficient maintenance and repair services to the respective services of the SANDF.

The reduction of the DOD budget is having a significant impact on the domestic defence industry and several companies in the defence industry were forced to downscale capacity during the reporting period. This downscaling, together with delays brought about by lockdowns due to the COVID-19 pandemic, has had a marked impact on the ability of industry to meet contractual commitments. The reduction in capacity has become visible in meeting the DOD's cashflow expectations for the financial year.

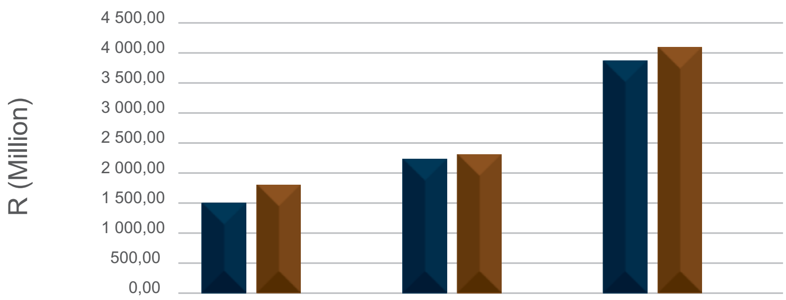
During the reporting period, the Acquisition & SCM Business Unit lost a number of experienced Programme Managers who elected to apply for Voluntary Severance Packages. In this regard, the succession planning process whereby alternative capabilities were developed within the Business Unit, served to lessen the impact of the loss of personnel and allowed for a seamless transition of responsibilities to remaining personnel.

ACQUISITION FINANCIAL PERFORMANCE

An important objective of the Acquisition Department remains the achievement of planned orders and expenditure of DOD funds. In terms of the Service Level Agreement between Armscor and the DOD, Armscor's cash flow performance is measured against the joint Armscor/DOD cash flow planning that occurs during May/June of every year. The performance is adjusted with mutually-agreed deductions due to factors beyond Armscor's control.

In addition to poor performance by Industry, factors beyond Armscor's control that inhibit planned cashflow from realising would typically 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, where all planned funds are not spent as a result of improvements in the predicted rate of exchange, or where ceiling amounts are contracted and where the full extent of work provided for does not materialise (e.g. maintenance contracts).

A total amount of R1 035,48 million which was planned during the first revision in May/June 2021 as cash flow for the 2021/22 financial year is regarded as not being achievable due to factors beyond Armscor's control. This is supported by agreements with 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. The graph in Figure 7 reflects the planned cash flow that has been adjusted by deducting the value of orders that could not achieve planned payments due to factors beyond Armscor's control versus actual cash flow achieved.



	Capital Budget	Operating Budget	Total
Adjusted Planned Cash flow	1 671,65	2 210,31	3 881,96
Actual Cash flow	1 795,75	2 281,11	4 076,86
Performance	107,42%	103,20%	105,02%

The reduction in the DOD's budget allocation resulted in the respective services having to continually reprioritise in order to comply with the various priorities of meeting their constitutional mandate. This continuous re-prioritising of the allocation of the limited available funding has resulted in many requirements received by Armscor being underfunded. In many cases funds were re-allocated subsequent to Armscor having received requirements. This resulted in many contracts (especially requirements funded from the DOD's operating budget) being placed later than planned or sometimes not materializing at all. These delays consequently had a negative impact on both industry's ability to deliver on planned commitments and as well as on the achievement of planned cash flow at the end of the financial year.

At the end of the 2021/22 financial year, 44,13% of the total value of contracts funded by the DOD for the financial year, comprised orders placed on Denel. The continuously worsening situation at Denel, caused by non-delivery by suppliers and subcontractors due to them not being paid by Denel, as well as a significant loss of critical capability and capacity due to resignations of key personnel, resulted in minimal or zero performance by Denel against virtually all requirements and projects contracted to them. Significant programs have shown no progress during the reporting period. Denel managed to invoice for only 19,25% of the value of contracts phased for the 2021/22 financial year, down from 22,43% during the previous financial year.

The total loss of critical capacity in some Denel Business Units (especially Denel Dynamics and to a large extent, Denel Land Systems) is a cause of great concern as the SANDF is reliant on Denel as Original Equipment Manufacturer (OEM) for the maintenance and upgrading of most of the Prime Mission Equipment of the SANDF.

In addition to the goal of achieving more than 95% of the planned cashflow by the end of a financial year, the SLA between Armscor and the DOD also set a goal of contracting more than 95% of received requirements during the financial year. During the 2020/21 financial year, Armscor managed to exceed this goal by contracting 100% and 96% of the requirements from the Capital and Operating budgets respectively. This was achieved in spite of significant delays in receiving requirements due to re-prioritising of the budget allocation by the DOD.

STATUS OF SIGNIFICANT ACQUISITION PROJECTS

General

The past reporting period was yet again characterised by significant reductions in both the Special Defence Account and General Defence Account (Operating Budget) allocations. As experienced during the previous financial years, the only Capital Acquisition Projects that continued to be funded are those projects for which the acquisition phase had already previously been contracted. Projects for which the acquisition phase had been contracted prior to introduction of the budget cuts, were all deferred or terminated upon completion of a logical baseline during the early phases of the projects. The reduction in the capital budget and the total lack of both technology development and new Capital Acquisition Projects is already having a significant impact, not only on the local defence industry and on the maintenance of strategic and sovereign capabilities within the industry, but also on the operational readiness of the SANDF going forward.

MARITIME SYSTEMS

Hydrographic Capability

This programme consists of the acquisition of a Hydrographic Survey Vessel (HSV) with two organic Survey Motor Boats (SMBs), a third fully operational inshore survey motor boat (SMB), kept ashore in reserve, one sea boat, upgrading of the South African Navy Hydrographic Office (SANHO) infrastructure and the associated logistic support.

At the end of the reporting period, construction of the hull and super structure of the HSV was completed and installation of equipment on board had commenced. All SMBs have been completed and the first SMB was handed over to the SA Navy on 31 March 2022 and the preparation for Operational Tests and Evaluation has commenced. The upgrade of the SANHO was completed and Sea Acceptance Trials of the Sea boat were completed and the boat was placed in preservation awaiting delivery together with the HSV.

Multi-Mission Patrol Capability

This program entails the acquisition of a new Multi-Mission Patrol Capability for the SA Navy, comprising of three Multi-Mission Offshore Patrol Vessels (MMOPVs) and three Multi-Mission Inshore Patrol Vessels (MMIPVs). The MMIPV portion of the project is active and contracted.

The MMIPV project is progressing in accordance with the contracted functional performance and cost. By effectively mitigating most of the disruptions caused by the lockdowns and travel bans during the past two years due to the COVID-19 pandemic, deliveries were only delayed by a few months in total.

The first vessel's commissioning and acceptance trials were completed during the reporting period and the vessel is currently being prepared for delivery.

The construction and fitment of the second vessel was approximately 70% complete by the end of the reporting period.

At the end of the reporting period, the keel of the third vessel had been laid and the construction and fitment thereof was approximately 20% complete, with all major ship's equipment already delivered to the shipyard.

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 (SRAAM) system for the South African Air Force (SAAF), which is co-funded by the Brazilian Air Force (FAB), and the manufacture thereof for the SAAF.

The development phase of the missile system was completed with completion of the Formal Qualification Review (FQR) of the missile which took place during August 2019 after the Airworthiness Certification process from both Air Forces (South African and Brazilian) was completed by the end of 2019. This important milestone signified the completion of the missile development phase and the co-operation with Brazil under the development programme.

A contract was placed with Denel in March 2015 for the industrialisation and subsequent production of A-Darter missiles for the SAAF. Activities relating to the industrialisation of and preparation for the manufacturing of the missiles slowed down during the previous financial years. Armscor is currently evaluating alternative methods of completing the required missiles for the SAAF to replace the current missiles on the Gripen fighter aircraft which are nearing the end of their operational life.

LANDWARD SYSTEMS

New-Generation Infantry Combat Vehicle

This project provides for a complete New Generation Infantry Combat Vehicle Products System (NGICV-PS) to replace the Ratel Infantry Combat Vehicle that has been in service since 1976. The project originally comprised of 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 (AAC) on 13 February 2013. The quantity of two-hundred-and-thirty-eight (238) combat vehicles was increased to two-hundred-and-forty-four (244) after approval to increase the advance payments.

This program has been plagued by delays and has not shown any significant progress during the past financial years. The development phase of the program was contractually scheduled to be completed by May 2012 (original date), but has still not been completed. The delays are mainly attributed to both technical and financial challenges within Denel as well as to their suppliers and sub-contractors not supplying the required subsystems due to non-payment by Denel.

The delivery of the first Battalion consisting of 88 off-vehicles was contractually scheduled to be completed by May 2019. This date was however not achieved due to delays in the development and industrialisation process.

Armscor and the DOD has been engaging significantly at various management levels regarding the status of the programme and the impact of the significant delays that have been experienced to date.

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 (LWS), has been delivered to the SA Army Air Defence Artillery Formation (the GBADS user) and is operational.

Phase two of the GBADS programme comprises two steps of which 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 step was successfully completed during the reporting period. The second step entails the inclusion of the missile Short Range Air Defence system (SHORADS) capability but is currently unfunded.

The third phase of the GBADS programme addresses the Battle Management, Command & Control, Communications, Computers and Information (BMC4I) integration within the Mobile Air Defence System (MobADS) Regiment.

The project has made good progress on the design and development activities with the establishment of the initial Product Baselines of the new product systems, in spite of limited resources within Denel, which was contracted as the Main Contractor for the third phase of the project. The new products systems comprise the Air Defence Operational Centre (ADOC), to be fitted with a modern Air Defence Control System (ADCS) and Tactical Command & Control System (TCCS) integrated with the New Generation Tactical Communication System's equipment, new Ratel based Head Quarters (HQs), upgraded Thutlwa Radar System and the higher-order linking to Air Force Sector Control Centre (SCC). The development phases of most of the system elements were completed during the reporting period, and all of the physical elements Prototype Builds were completed. The stepped systems integration process is planned to commence during the next financial year.

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 as well as digital voice communication. Development of the various elements of this system has been completed. This 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.

Industrialization of the four major sub-systems, HF (High Frequency) Radio system, the V/UHF (Very/Ultra High Frequency) radio system, IPCS (Intra Platform Communication System) and the SRCS (Short Range Communication System) have been completed and all the manufacturing baselines have been established with the completion of the respective Production Readiness Reviews (PRRs). Development of the communication management system has been completed, with extensive testing of the system on the Integrated Test Bench (ITB).

With the completion of the management system, which was on the critical path, Design Test and Evaluation (DT&E) commenced and all the field testing was completed during October 2021. A number of observations were raised and were substantially resolved by March 2022. The Operational Test and Evaluation (OT&E) of the complete system is expected to commence during June 2022 with completion scheduled for July 2022.

DEFENCE INDUSTRIAL PARTICIPATION

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. It forms an integral part of the DOD's policy framework for the retention and development of the SADI.

Armscor is currently managing 13 existing Active DIP agreements resulting from capital acquisition projects; and one DIP agreement resulting from the procurement of pistols on behalf of the SAPS.

Under the project to supply three Inshore Patrol Vessels (IPVs), the obligor has achieved over and above what was planned for the financial year. That resulted in an over-achievement for the overall DIP target in the financial year under review.

Under the project for the Acquisition of a Hydrographic Survey Vessel, three of the four obligors registered DIP credits already. However, challenges experienced by the main contractor with suppliers has affected performance during the financial year. Currently the risk of non-performance against the total obligation and final completion dates is medium and the main impact is some delays on interim milestones. However, the situation remains unpredictable and will be monitored and re-assessed during 2022/23.

In terms of the Militarised Operation Earthmoving Systems, the challenges faced by the obligor with regards to the beneficiary have been resolved. The obligor provided capital equipment to one of the nominated beneficiaries. The highlight was that the equipment is available for use by other DIP beneficiaries.

The main contractor (Denel) for the New Generation Infantry Combat Vehicle Products System project experienced financial challenges and as a result, was unable to fully discharge its pending DIP obligation within the specified period. The DIP completion period was 31 March 2021. Armscor's Board of Directors subsequently approved that penalties be levied on Denel in terms of the DIP Agreement concluded between the parties.

Table 6: The status of the four DIP Portfolios as at 31 March 2022

Portfolio	Number of current contracts	Number of completed contracts	Total obligation (Rm)	Credits passed during current financial year (Rm)	Total credits passed to date (Rm)	Outstanding obligation (Rm)
SDPs	0	8	15 111	0	15 111	0
Active (SDA)	13	42	8 037	260	7 581	456
Police contracts	1	3	184	0	163	21
Total	**14**	**53**	**23 332**	**260**	**22 855**	**477**
Pro-active	2	0	n/a	0	74	n/a
Historic Pro-active	1	48	n/a	0	868	n/a

2.2.2 RESEARCH AND DEVELOPMENT

Armscor, through its Research and Development (R&D) Business Unit, is mandated by the Armscor Act to manage strategic capabilities and facilities.

The mandate and corporate goals of Armscor require the R&D Business Unit to ensure continuous growth of the strategic capabilities and facilities under its control. This includes defence operational and scientific research, test and evaluation services, and technology management, analysis and industrialisation, and innovation management services.

Test and Evaluation Facilities

The Test and Evaluation Facilities of R&D have large assets and testing environments and similar requirements where knowledge is interchangeable. The biggest client base for the Test and Evaluation Facilities is from international markets. Test and Evaluation Facilities comprises the following divisions:

- Alkantpan Test Range (Alkantpan)
- Gerotek Test Facilities (Gerotek), including:
  - Gerotek Training
  - Gerotek Events
  - Sidibane
  - Gerotek Paardefontein Antennae Test Range

Defence Science and Technology Institutes

Through their various specialised divisions the institutes provide customised operations research and solutions for user communities in the South African DOD. They also tailor other strategic and commercial products and services based on their primary defence technologies, and market these to finance sustainment of capacity and capability for defence purposes. Defence Science and Technology Institutes comprises the following divisions:

- Institute for Maritime Technology (IMT)
- Protechnik Laboratories (Protechnik)
- Hazmat Protective Systems (Hazmat)
- Defence Decision Support Institute (DDSI)
- Ergonomics Technologies (ERGOTECH)
- Fluid and Mechanical Engineering Group (Flamengro)
- Armour Development
- Intellectual Property Management Division (IPMAD)
- Technology Management, Analysis and Industrialisation (TEMANI)

R&D Support functions

R&D support functions renders services to the Test and Evaluation Facilities and the Defence Science and Technology Institutes. The support functions comprises the following divisions:

- Business Operations
- Business Support
- Finance

EXECUTING FUNCTIONS

The services rendered by the R&D Business Unit are categorised in the following three functional areas:

Functional Area 1: Technology Management, Analysis and Industrialisation, and Intellectual Property Management divisions:

- An independent centralised coordination and management role for technology acquisition, including the management and analysis functions, and technology commercialisation in support of the DOD is fulfilled by TEMANI.
- Intellectual Property acquired in the rendering of defence matériel acquisition services to the DOD is managed by IPMAD. The core service rendered include general IP management, IP exploitation, new venture management and contractual management of IP.

Functional Area 2: Test and Evaluation Institutes

- Ballistic tests for medium to large calibre weapons and ammunition are rendered by Alkantpan.
- Vehicle testing, advanced driver training and corporate events are rendered by Gerotek.

Functional Area 3: Operational and Scientific Research Institutes including defence science and technology that perform R&D services for both the defence and commercial industries through centres of excellence

- Continuous research and development to maintain and advance armour protection technologies are rendered by Armour. Development. The division also focuses on the establishment of an industrial capability to timeously satisfy the armour protection requirements.
- Chemical and biological research to support the South African Military Health Services (SAMHS) is the specialised services rendered by Protechnik. Protechnik is also giving technical support to the South African Council for Non- Proliferation of Weapons of Mass Destruction on aspects related to the implementation of the Chemical Weapons Convention (CWC).
- Ergonomics research, ergonomics evaluation and testing services are rendered by ERGOTECH.
- The manufacturing and supply of respiratory filtering masks for protection against a majority of health hazards is done by Hazmat.
- Defence research, development, testing and evaluation of maritime systems are the speciality services rendered by IMT.
- Defence analysis, engineering and decision support, operational research and capability analysis services to the DOD are rendered by DDSI.
- Computer-based simulation and failure analysis support and consultative services to programme managers are rendered by Flamengro. They furthermore render scientific and engineering support on the design, development and operational use of artillery systems.

Fluid and Mechanical Engineering Group

Flamengro offers additive manufacturing, computational mechanics, test measurement and software development capabilities to its main client, the DOD, as well as to the commercial clients in the defence industry. This type of work involves investigation on weapon systems launch response, integrated ballistics simulation, artillery range extension mechanisms, ammunition technology, 3D printing hybrid rocket motor grain and weapon mounting dynamics.

During the reporting period the following can be highlighted:

- Flamengro is continually investing in a state-of-the-art test facility for the testing of specialist materials, sensor calibration, blast wave testing, and impact testing for armour materials. The South African defence industry lacks material data for defence materials subjected to high strain rates. This type of work seeks to solve this problem by performing both tensile and compression test through compressed air driven impact tests. Furthermore, the facility is capable of conducting impact testing for armour materials and blast wave tests on mannequins for ergonomics purposes. A shock tube has been designed and commissioned with capabilities of conducting blast wave interaction for various projectiles.
- A continuation of the ramjet technology demonstrator on the 76 mm calibre projectile with the sole purpose of increasing the projectile's range was successfully designed, developed and tested. The purpose of this Defence Research and Development Board (DRDB) funded technology was to also develop an alternative propellant/fuel grain that is not subjected to International Traffic in Arms Regulations (ITAR) control. The propellant is 3D Printed fuel grain and is intended for propulsion of which it ignites due to friction at high mach numbers.

- A design and commissioning of a spin-jig for a pre-fragmented 30 mm projectile fuze testing has been achieved. The spin-jig is a continuation of the pre-fragmented 30 mm projectile project in partnership with local manufacturers (Denel Rheinmetall – RDM, Denel PMP and Reutech Solutions). The 30 mm projectile is used by many defence forces throughout the world. In an effort to improve this projectile, Flamengro developed two versions of this projectile to be integrated in many weapon systems. This development has now surpassed technology readiness level 4.

In order to strengthen this capability Flamengro is continually investing in training young engineers under the Armscor talent development pool trainee programme for two years. The current talent pool includes two chemical engineers and one mechanical engineer.

Armour Development

Armour Development makes use of the latest available materials and methods to design and manufacture armour systems. These concept armour designs are tested against light, medium, heavy calibre weapons, explosives and warheads under controlled conditions.

The division is funded through the DRDB, the transfer payment and commercial income. The main clients are the DOD and the SANDF. The DRDB funded research projects are guided by the requirements of the soldier in the field and addresses current and future threats.

In the development of armour protection technology project, new milestones were achieved with the passive and reactive armour systems resulting in improved performance against warheads. A newly developed lightweight body armour system is now ready for implementation. In the project to determine critical angles on armour steels, over 8 000 shots have been fired and a comprehensive database is already available for DOD to use. It is expected that the database will be completed in the next three years that will include medium calibre ammunition.

The COVID-19 pandemic had a significant impact on commercial work resulting in a reduced number of commercial client tests. Commercial work has been done for ADG Mobility (Pty) Ltd, Bullet Proofing Technology (Pty) Ltd, CSIR, Pronex Engineering (Pty) Ltd, SVI Engineering (Pty) Ltd and Swedish Steel AB. Armour Development provides ballistic testing services to the commercial clients for certification of armour systems, which further allows these companies to market their products locally and internationally.

In addition, Armour Development has a wealth of knowledge in armour design and provides design review on armour for vehicular applications in the industry.

All the armour protection and commercial work packages milestones on Armour Development that could be used for current and future armour systems for the DOD and commercial clients were achieved, completed and delivered. There has been renewed interest in the new generation body armour package developed by Armour Development for use by the SANDF.

Institute for Maritime Technology

The IMT is recognised as the professional body established to provide technology research and development and support services in various technology domains. Initially the work undertaken at IMT was mainly centred on naval operational research and the establishing of underwater technology in the local defence research environment. Over the years, the scope of activities was increased to meet the growing demands of not only the SA Navy and other members of the maritime community, but also that of the other services of the SANDF. IMT provides a strategic technological/scientific support service to the SANDF in support of its national and international maritime roles and responsibilities. IMT also provides technology support to non-SANDF and commercial clients.

Despite managing the COVID-19 pandemic challenges experienced by IMT in the previous financial year, the Institute also suffered a huge impact on its budget due to the unavailability of the DRDB funds. The DRDB, Strategic Technology Support Services, SA Navy, Memorandum of Agreement and other defence/commercial contracts are the main source of funding for IMT.

In spite of these challenges, IMT successfully achieved its targets for the year and some of the highlights include the following:

- As part of the ongoing Maritime Domain Awareness (MDA) effort for multi-sensor data fusion from various surveillance sensors to provide a consolidated surveillance picture for real time monitoring, IMT is rolling out more sensor sites and recently obtained permission to conduct a site evaluation at Kosi Bay Base in the northern KwaZulu-Natal coastal region. This project is in line with the Situation Awareness Centre (SITAC) that was established by IMT at Naval Base Durban. The SITAC provides the SA Navy with a capability to monitor the harbour, ocean and key point facilities in Durban.
- IMT developed the VISTANET MDA system that provides the SA Navy with a recognised maritime picture of the South African coastal area. The MDA Centre West was formally handed over in the previous financial year. IMT is in the process to finalise the handing over of the MDA Centre East to the SA Navy.
- IMT produces dual-purpose technologies for the commercial market. The Ultrasonic Broken Rail Detector (UBRD) System has seen a constant development and refinement to become the leading broken rail detector technology in the world. During the previous financial year, the UBRD Version 5 was successfully developed. Currently, the focus shifted to the maintainability of the system and was driven by the interest received from the current clients such as Transnet Freight Rail.

Intellectual Property Management Division

Intellectual Property (IP) created or acquired during acquisition of defence matériel or technology development projects, on behalf of the DOD, is managed by the IPMAD. The IP is categorised as either sovereign or strategic IP and the function to manage IP includes the following generic elements:

- Identification of IP
- IP recordal and protection
- IP valuation
- IP contract management
- Legislative compliance with IP laws
- 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 was given to the sovereign sub systems in the specific technology and commercial equivalents of the sovereign sub-system which are created for the commercial market.

DOD IP is exploited with the support of Armscor's Executive Committee, Technology, Industry and Sustainability Support Committee, Armscor Board of Directors, Defence Intelligence, and the User Environment. The Secretary for Defence on behalf of the Minister of Defence and Military Veterans approves requests to exploit IP.

IPMAD also manages Armscor owned IP. Armscor IP is exploited with the approval of Armscor Board of Directors. One Armscor IP/technology was exploited during the reporting period.

Furthermore, in managing the IP, IPMAD is responsible for assisting the DOD with accounting for the DOD's intangible assets relating to IP within Armscor. This is done bi-annually preparing a Financial Asset Register for all DOD's intangible assets within Armscor in accordance with National Treasury's modified cash standard. The Register is audited annually by the Auditor-General of South Africa. An unqualified audit for intangible assets relating to IP was obtained by the DOD for 2020/21 financial year. This is the seventh time that the DOD has obtained same results.

Technology Management, Analysis and Industrialisation Division

This Division is responsible for acquiring technology for Category 1 defence matériel, facilities and services in accordance with the operational requirements of the DOD as mandated by the service level agreement between Armscor and the DOD. TEMANI performs an independent, centralised coordination and management role for technology acquisition and industrialisation.

Management of Technology Development Programmes

As a result of new and changing demands of the SANDF, technology development programmes in various technology areas are undertaken in order to develop and maintain relevant technologies and capabilities in South Africa. This in turn allows the SANDF to maintain strategic capabilities in-country.

The technology development programmes are conducted in SADI, Defence Evaluation and Research Institutes (DERIs), 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 a hostile fire indicator demonstrator.

Landwards Technology:

Provides 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 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 in order to provide scientific and engineering advice and technical solutions in radar, electronic warfare, optronics, communications, command and control and information warfare domains.

Support Technology:

Develops and maintains sustainable capability in chemical and biological defence as well as ergonomics as part of soldier support.

Technology-Based Special Programmes:

Defence Engineering and Science University Programme (DESUP), Defence Transformative Enterprise Development (DEFTED).

Gerotek Test Facilities

Providing the SANDF with internationally accredited component, vehicle and other system test solutions with the emphasis on technical excellence and affordability is the prime objective of Gerotek. Gerotek endeavours to ensure the availability of well-maintained test facilities to grow its value proposition to other government and commercial sectors. Gerotek also developed testing, advanced driver training, corporate events, restaurant and conference services in support of the value proposition to all its clients.

These services are offered by the following Gerotek divisions:

- Gerotek Testing provides ISO 17025 international accredited test services. Services include vehicle, product, environmental, antennae and electromagnetic compatibility testing.
- Gerotek Training offers Safety and Security Sector Education and Training Authority (SASSETA) and Transport Education Training Authority (TETA) accredited advanced defensive, high performance and off road driving courses.
- Gerotek Events offers corporate functions, vehicle launches, conferences, team building and client specified functions and events.
- Sidibane supports all the Gerotek divisions with catering services.

COVID-19 pandemic continued to have a drastic impact on Gerotek's performance during the reporting period. Major projects and income streams did not materialise as a result of the pandemic. This includes income to the value of approximately R14m from European vehicle manufacturers who use Gerotek for hot climate testing, local corporates, government and other industries.

The exponential growth of informal housing developments around Gerotek have negatively influenced client's perceptions of Gerotek when the venue is evaluated as an events venue in comparison to competitors such as Kyalami and Zwartkop raceways and hotels in Pretoria/Johannesburg area. It also influences international clients negatively when Gerotek's ability to host confidential tests on prototype vehicles is compared to similar facilities elsewhere in the world.

The period of low demand provided time to address some of the long term sustainability issues facing Gerotek.

- Gerotek had negotiations with the military command, DPWI and the community leaders to facilitate a safe environment for Gerotek employees and clients regarding the informal settlements that develop in the area. Approval was granted by management and supported by the community to put up a security fence next to the Gerotek entrance road and a new security gate to lower risks.
- Management successfully motivated for the replacement of all company support vehicles and equipment used for maintenance and support services. These items will be finalised in the 2022/23 financial year.
- Gerotek hosted the Armscor Capability Demonstration Event attended by more than 200 people from various industries. Armscor divisions, including Gerotek, demonstrated their capabilities at the event. Gerotek Training gave participants a demonstration of defensive driving courses on the skid pad and high performance driver training on the high-speed track.
- Gerotek training offered services to a wide spectrum of clients including leading international automobile companies, military, mining, petrochemical and civilian.
- A major European luxury automotive company used Gerotek for a three-week period to test and evaluate prototype vehicles including electrical and autonomous vehicles. The testing division conducted tests for the wider industry including almost all motor manufacturers, military vehicle manufacturers, the aviation industry, mining, component manufacturers and antenna manufacturers.

Protechnik Laboratories

Protechnik was established as the primary research institute regarding chemical and biological (CB) defence for the DOD. During the reporting period, Protechnik in collaboration with other research institutions within Armscor embarked on a project to design an integrated remote chemical detection technology. The design for the remote chemical detection technology was an initiative to support the SAMHS capability to identify and quantify hazardous chemical vapours in areas that are inaccessible.

The environmental monitoring attributes includes the detection of chemical warfare agents and toxic industrial chemicals. The objective of this research was to eliminate or mitigate the above-mentioned challenges.

In parallel, the protection domain within Protechnik has been involved in the test and evaluation of respiratory protective equipment (RPE) since its inception. The domain has been rendering these services to the SAMHS to ensure the safety of military personnel.

The extensive experience gained enabled the domain to render these services to the South African Bureau of Standards (SABS), the National Regulatory for Compulsory Specifications and the public at large to regulate and promote the use of appropriate RPE in the workplace. During the outbreak of the novel Coronavirus (i.e. COVID-19 pandemic), suitable RPE for healthcare workers was critical. Therefore, Protechnik became the testing centre for the testing of particle filtering masks (FFP2, FFP3 and KN95) and surgical masks nationwide, including neighbouring countries. This shows that funding from the DOD resulted in the value added expertise.

The decontamination domain within Protechnik also utilised its existing defence capabilities towards reducing and controlling the spread of the COVID-19 pandemic. Protechnik designed, tested and evaluated hand sanitiser and surface disinfectant formulations with strict adherence to guidelines from the World Health Organisation. The Protechnik hand sanitiser and surface disinfectant products passed the formulation assessment conducted by the SABS. Currently work is underway for the product certification by the SABS. A pre-permit audit planning is in process for the product to bear the SABS certification mark. Once the products bear the SABS certification mark, they will be available on the market for non-government entities and the public under the following registered trademarks: pro defence hand sanitiser and pro defence surface disinfectant.

With this extensive defence research expertise, the facility has extended its support to industry where analysis of samples related to occupational health, safety and hygiene are verified. The support is further extended to inter-departmental business units within Armscor as well as the pharmaceutical and food industry markets. This industry support cannot be realised without rendering a good quality service as one of the strategic goals of Armscor. The quality management system of Protechnik has been accredited and maintained against ISO/IEC 17025:2017 since 1994. Therefore, to meet one of the accreditation requirements, the facility participates in international proficiency testing schemes to validate test methods to ensure their accuracy, competency and integrity. Successively, the proficiency testing requirements were met, thus indicating that the quality of work executed by the facility is on par with other international laboratories.

Diversifying Protechnik capabilities by transferring skills to disadvantaged or lesser economically developed African countries as a training hub is done with the utilisation of the advanced analytical instrumentation of the facility. The facility has for the first time successfully conducted an online Analytical Chemistry Course (ACC) to African member states to the CWC on an Organisation for the Prohibition of Chemical Weapons (OPCW) contract. This is an opportunity that the facility wishes to extend nationwide under these changing times. The research and development work that Protechnik conducts is still an important element.

Alkantpan

The COVID-19 pandemic continued to ravage business, which resulted in a number of international testing being deferred to later dates. During the reporting period, there was a slight improvement, as tests conducted for local clients increased to 120. The facility managed to conduct two tests for foreign based clients, which were virtually witnessed.

Whilst the developments around the test range in the form of independent power producers (wind and solar) and the copper zinc mine are welcomed, competition over the few and scarce opportunities comes with its own challenges (community unrests; road blockages), which at times negatively affects the operations of the test range.

Repairs and maintenance of the artillery capability of Alkantpan continue to suffer because of the Denel situation, which has not improved much from the previous reporting period.

Alkantpan needs to purchase a flight follower to increase its capability and to attract more clients. The flight follower will allow Alkantpan to track ammunition in flight for over 200m in ultra-high speed. The video images are used to establish or confirm projectile integrity, velocity and spin rate during flight. The video images are also critically important in the development phase of ammunition aerodynamics and for the qualification process.

Rheinmetall Denel Munitions continued testing of their conventional and extended range of artillery shells and the modular propelling charges at Alkantpan.

The Alkantpan Lodging facility's performance improved due to the hosting of the crane hire client in the absence of the usual international clients who could not travel due to COVID-19 pandemic restrictions.

Whilst the recertification ISO 14001 and ISO 9001 was achieved, Alkantpan safety improvement initiatives strives to successfully convert OHSAS 18001 to ISO 45001 certification.

Monthly SHEQ system training, awareness campaign, inspections and audits are performed in order to maintain ISO standards and legal compliance.

No penalties and non-compliance notices were received from the regulators.

Ergonomics Technologies

ERGOTECH continues to lead in the South African ergonomics industry through providing a comprehensive array of ergonomics and occupational hygiene services to the SANDF and commercial clients. The highlights from the research conducted by ERGOTECH are as follows:

- ERGOTECH improved the functional strength capabilities by procuring a mobile trailer in which to house the equipment used to collect functional strength data. This will enable ERGOTECH to make use of these capabilities outside of the laboratories, which in turn will improve research efforts for the SANDF. The research into the response of body armour to blast wave loading was continued, with the inclusion of the investigation of techniques into the modelling and simulation of blast loading. ERGOTECH also attended training exercises involving the collection of in-field blast data. In addition two locally produced sample boots for use by the South African Special Forces were investigated.
- The work that was initiated in 2019/20 on Virtual Reality continued into 2020/21 and 2021/22 where the usability study on the Virtual Reality equipment and software was conducted. The objective was to identify possible Virtual Reality uses/applications that ERGOTECH can investigate to fulfil the SANDF requirements. Research into the situation awareness of SANDF mission controllers included the use of goal directed task analysis to map and predict cognitive function. This will assist in identifying the cognitive demands placed on missional controllers while conducting their daily tasks in an effort to optimise their productivity.
- Lastly, ERGOTECH established a noise laboratory with reverberant material to conduct impulse and continuous noise assessments in a controlled environment and developed anthropometric software and a biomechanical tool for the selection of SAAF pilots. Both the software and the tool were successfully implemented at two SAAF Bases.

Hazmat Protective Systems

Hazmat remains a manufacturer and supplier of quality military and industrial respiratory products. Hazmat initially supplied the DOD with respiratory products before it commercialised this manufacturing capability. For a number of years all revenue, including the reporting period, was generated from sales to private and commercial business entities.

Hazmat competes with numerous importers and a limited number of local manufacturers of respiratory products. The Hazmat brand is seen as an excellent value-for-money product offering. All manufactured products are extensively tested by Protechnik Laboratories in its ISO 17025 accredited filtration laboratory to ensure compliance to the latest compulsory specifications.

Hazmat's Quality Management System is continually improved to ensure high quality products. During the 2021 SABS audit, Hazmat maintained its ISO 9001:2015 Quality Management Systems Certification. No audit findings were received, which is considered to be an achievement.

Impregnated carbon is a major component in the manufacturing of respiratory filters. Hazmat impregnates activated carbon in its in-house state-of-the-art carbon impregnation plant.

The plant is maintained to ensure this unique capability is fully operational for the impregnation of the various carbon types that are required to manufacture the respirator filter range offered by Hazmat.

Respiratory products were mainly sold to distributors in the personal protective equipment industry based in South Africa and Africa. The expansion of Hazmat's filter range to include the manufacturing of branded filters for strategic partners again formed a significant portion of Hazmat's business. The process to re-brand products for one of its major clients has commenced.

The procurement of raw materials and components to manufacture respiratory products presented a challenge. Long lead times and shortages of certain raw materials were encountered as backlogs still existed on imported items due to the COVID-19 pandemic. Proper forecasting and planning during the year ensured that the impact on Hazmat operations was minimised. Hazmat exceeded its budgeted sales with approximately 11% and achieved annual sales of R15,4m. Hazmat made a modest surplus for the reporting period. This is considered an achievement as most industries are still in the process of recovering from the COVID-19 pandemic.

Hazmat maintained its strategic (sovereign) manufacturing capability and can respond to the DOD should the need for military filters arise. Hazmat is currently a commercially sustainable entity that serves the needs of its major stakeholders.

Defence Decision Support Institute (DDSI)

The DDSI renders the following services to the SANDF and other South African government departments:

- Defence capability analysis, environmental scanning, operational data analysis, operational research services, policy development and/or support, regional analysis and strategy development support.
- Configuration and data management, logistics and systems engineering support.
- Products system management and stock management within the DOD.

The Division was significantly impacted by the reduction in the MOA funding emanating from the budget cuts within the DOD. Decision Support Services and Staff Support Services were rendered to Capability Development Directorate under Joint Operations Division, Dir Army Prod Sysman under Chief Directorate Army Force Structure, Military Policy Division and Chief Defence Policy Strategy and Planning Division. This involved ensuring that the DOD and SA Army matériel is ready and in line with the system-readiness requirements to deploy internally and also beyond the borders of South Africa. The main responsibility is to ensure that products system are available and maintainable during the force preparation and force employment at minimum expenditure of resources.

Through the provision of specialist defence decision support services the following milestones were achieved:

- Defence Secretariat Project:
  - Global, continental and regional analysis with emphasis on main security stressors
  - The Defence Dilemma in terms of the fiscus perspective and the national defence capabilities including interventions for stability
  - The analysis on the evolving dimensions of sovereignty and national security and the development of a national security construct
  - The development of a national security campaign concept
  - The development of national defence priorities and broad capabilities
  - Analysis of the KZN uprising in July 2021 and the implications for defence planning.

- Capability Development Project:
  - Update the Long-Term Capability Roadmap for Landwards at Level 2 for SA Army
  - Prepare a Joint Force Employment Requirement for Directorate Capability Development
  - Update the costing for the Force Design Tool for Directorate Military Strategy
  - Maintenance of the Force Design Tool and Road Map for Joint Operations

External Presentations and Presence

- The role and utility of military and non-military application in contribution to the RSA economy.
- Analysis of the changing global context and its impact on Armscor, Defence Industry and African Defence Demand.
- Inputs to Armscor Annual Plan in terms of geo-political evolution and associated risks and opportunities towards Armscor's strategic focus.
- Support Joint Operations in compiling norms for the reimbursement of the SANDF for peace missions.
- Member of the National Defence Industry Council Workgroup.

Provide Specialist Staff Support Services to the following Entities:

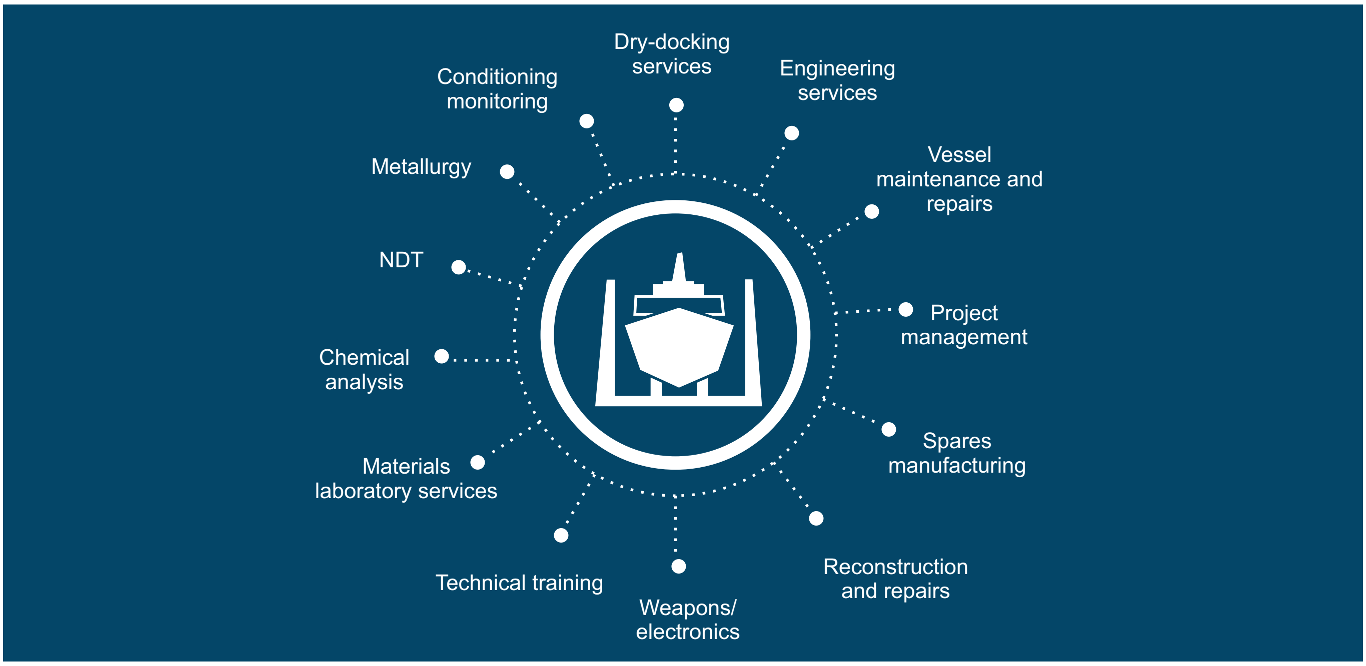
- Military Police
  - Serviceability assessment of the Prime Mission Equipment (PME) of the Military Police.
  - Ongoing development of a dashboard for the PME of the Military Police.
- SA Army
  - Provide support to the life cycle management of SA Army PME (eight projects).
  - Participate in Projects BLESBOK and PANTILE in support of the Product System Managers (PSMs).
  - Pre-import checks, in support of PSMs, for the Logistic Support Analysis Record (LSAR) for all projects in acquisition phase.
  - Provide system management support to the PSMs for the military equipment within the SA Army during the operating phase.

2.2.3 ARMSCOR DOCKYARD

Armscor manages and operates the Naval Dockyard as the SA Navy's third-line maintenance and refitting authority.

The Dockyard provides maintenance and repair services to the SA Navy on various configuration product systems, ranging from submarines, frigates, tugs and small craft to support vessels, in accordance with the Dockyard's available capacity and capability. The services cover both planned and unplanned projects.

DOCKYARD CAPABILITIES



The Dockyard is the SA Navy's maintenance, repair, overhaul and modernisation 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 and other essential services. Government priorities continue to shift focus from the DOD budget to other needy areas and coupled with the economic downturn, poses challenges to the execution of the mandate of the Dockyard.

EXECUTING FUNCTIONS

The Dockyard is mandated in terms of the service level agreement with the DOD to provide the following services to the SA Navy:

- The management of the Dockyard as a strategic facility of the SA Navy, to ensure available systems to the SA Navy in support of the DOD.
- The provision of support services to satisfy the SA Navy 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 (Opdefs).
- Docking and essential defects (DEDs).
- Upgrades to and modernisation of the SA Navy 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 to the fullest.

Infrastructure upkeep

The planning and execution of maintenance and repair plans in Simon's Town and Durban receives high priority in order to ensure effective service delivery. Good progress was made in terms of 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.

Project Management

The Dockyard's performance is based on a Memorandum of Agreement 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.

The Armscor Dockyard performed several maintenance and repair services to the SA Navy, as well as unscheduled dockings and ad hoc taskings. The focus was on the various product systems ranging from tug boats, small crafts, frigates, submarines and support vessels. Apart from this, a number of SA Naval projects were undertaken during the reporting period, both planned and unplanned, which have been carried out to the best ability of Dockyard. Also, during this reporting period unplanned work (ADHOC) tasks allocated to Dockyard increased by more than 35% compared to the previous financial periods.

Projects Highlights

Submarines

SAS Charlotte Maxeke Refit DED

Currently the project is in the overhauling phase and several activities and initiative have since commenced. Main activities is the localisation process through invitation of the local supplier and industry to support Dockyard as main refitting authority. Additional to this is the support that Dockyard is receiving from other Armscor Business Units to support the Dockyard in the contracting process and logistic and project management support. Contracting of local industry to supply additional supplementary spares has been completed and is expected to be advertised by the end of May 2022.

SAS Manthatisi DED 2021

During the reporting period, SAS Manthatisi submarine underwent planned maintenance for DED supported by Dockyard as maintenance authority. The project was scheduled for completion at the end of January 2022, but due to unforeseen challenges the maintenance period was extended to the end of May 2022 in order to allow completion of critical system overhauling required for the boat to be sea ready and sailing. Several mitigating measures were implemented in order to meet the deadline. Long lead critical spares delivery is still a challenge.

Frigates

SAS Amatola EC 53 (Port PD Change)

The vessel docked in December 2021 carried out the port engine change where Dockyard was responsible for contracting the rigging of the new engine into the vessel in order for other external service providers to continue with the installation. These activities were completed in time as required.

SAS Amatola DED 2020

The DED activities commenced before the vessels were docked (19 January 2022) in order to try to shorten the maintenance period. Currently the vessel has to carry out repairs and maintenance. The completion date is planned for 20 September 2022. The risk identified on the project is mainly the availability of spares to fully complete the project as required.

SAS Protea ADHOC

The vessel docked to complete some of the activities that were never completed during the planned maintenance period in order for the vessel to be operational to support the naval operations. Critical activities that Dockyard undertook are the refurbishing of the hull, underwater valve repairs, and tank surveys. The repairs and overhauling is progressing well and it is expected to be completed as required.

Operations

The Operations Division function is the execution arm of the Dockyard and is responsible for producing the final goods and services required to satisfy the SA Navy's maintenance and repair requirements. These requirements can be described using the Expanded Ship Work Breakdown Structure, which includes:

- 100: Hull Structure
- 200: Propulsion Plant
- 300: Electric Plant
- 400: Command and Surveillance
- 500: Auxiliary Systems
- 600: Outfit and Finishings
- 800: Integration/ Engineering
- 900: Ship Assembly and Support Services.

To ensure that the Division is positioned to satisfy its mandate, several capabilities have been rejuvenated and new capabilities have been introduced in the reporting period.

Enhanced Machining Capability

The Operations Division manufactures high-quality components crucial for the maintenance and repair of equipment installed on the SA Naval platforms. The Division has a machine shop that houses the subtractive manufacturing capability and is capable of providing a wide range of manufacturing and machining operations including but not limited to turning, milling, internal and line boring, drilling and finishing operations.

The Division is geared to take on any project of any size covering a wide range of materials. New equipment in the form of CNC machinery has been added to the machine shop to enhance Dockyard's competitive edge by realising complex designs and increasing efficiency and the quality of repetitive machining operations.

Motor and Pump Testing Capability

The Operations Division has upgraded the motor and pump test house to ensure that the effectiveness of repairs to motors and pumps can be verified with the highest degree of accuracy through performance testing before the systems are installed on the SA Navy platforms. In addition, the upgraded facility allows for the motor and pumps combination to be tested as a unit. The facility is capable of testing various electric motors from 1,5 kw to 100kw depending on whether the drive system is AC or DC, pumps of different types and capacities can be tested if compatible with the drive system.

With the assistance of the Quality Department, the Division can issue out test certificates and reports that offer insight on critical performance parameters of motors and pumps. This includes but not limited to the motor temperature, motor rotational speed, motor vibration, suction pressure, discharge pressure, barometric pressure, pump temperature, fluid temperature, pump capacity and pump input power.

Engineering Services

The Engineering Services Division has always strived for excellence in delivering their services to the SA Navy. One of the challenges was to capacitate the Division with required competent skills in different areas of expertise. Human resource is core to the effective and efficient functionality of the engineering services. While the Division was faced with the challenge of having critical vacant posts, the challenge was translated into a strategic plan that the Division has since started effecting.

During the reporting period, the Division has managed to achieve a milestone in capacitating different areas with competent employees. With the complement of the newly appointed staff, productivity and quality levels of the services offered to the stakeholders has significantly improved.

The areas capacitated were:

- The Vibration Engineering Section – responsible for monitoring all rotating machinery within the vessels.
- The Corrosion Prevention and Control Section - offers services such as cathodic protection design, operation, maintenance and monitoring, compilation of surface preparation procedures and paint specifications as well as coating failure investigations.
- Metallurgy Section - ensures that all materials used for repairs are conforming to the required specification, and also to conduct failure investigations.
- Non-Destructive Testing and Mechanical Support – responsible for ensuring that the vessels and the platforms are safe at all times.

The Engineering Services Division has also regained its corrosion control and prevention capability. The corrosion prevention and control section offers services such as cathodic protection design, operation, maintenance and monitoring, compilation of surface preparation procedures, paint specifications and coating failure investigations. The further development of the corrosion laboratory and procurement of various testing equipment will ensure that Armscor Engineering Services provides more services including but not limited to accelerated corrosion tests (salt spray), immersion tests and evaluation of the different forms of corrosion in the marine industry.

Corrosion test objectives include:

- Determining the best material to fulfil a requirement (material selection).
- Predicting the probable service life of a product or structure.
- Assisting with development of materials with improved resistance to corrosion.
- Conducting lot-release and acceptance tests to determine whether material meets specification (quality control).
- Evaluating environmental variations and controls (inhibitors).
- Determining the most economical means of reducing corrosion.
- Studying corrosion mechanisms.

The Armscor Engineering Services Corrosion Prevention and Control Section will also strive to provide training in terms of corrosion control, i.e. basics of corrosion maintenance, surface preparation techniques, painting, and others.

Site and Facilities Services

The Site and Facilities Services Division is responsible to ensure the provision of ancillary services such as shore supply for naval vessels, docking operations, electricity generation, sea water supply and deionised water production, in accordance with the Memorandum of Agreement as agreed upon with the SA Navy.

During the reporting period, the Division achieved 100% ancillary service provision to the SA Navy. It also managed to supply the entire naval base with electricity during all the Eskom load shedding outages, ensuring business continuity throughout. Site maintenance teams managed to execute 75% of their maintenance plans, with the availability of spares being the main reason for not achieving the 90% target.

The docking team had a total of 23 dockings and 24 un-dockings during the reporting period. This is an increase compared to 9 docked and 10 undocked vessels for the previous financial year. The synchrolift brakes tender was advertised with a R6,6 million order placed for the Durban synchrolift. The other major tenders advertised, were for the dry dock dewatering pumps, the refurbishment of the air compressors and the industrial waste management contract. The lifting of the RFQ threshold from R500 000 to R1 million, allowed for the purchasing of other significant items like the drainage pumps and motors for the pump house. The structural assessments of the wharf and 50T gantry crane on the dry dock was completed. The repair on the long standing 55T Terex crane has begun with the computer box being the only final outstanding item that needs to be completed.

Lack of support from the DPWI and the high rework rate remains a concern. The slow procurement processes also pose significant challenges to the Division with volume of spares extremely low.

Overall the Division had a productive year with a significant increase in the amount of dockings completed, the increased availability of key facilities like the dry dock, synchrolift and generating station. The team's ability to produce tenders, manage breakdowns and execute critical projects are some of the milestones achieved.

Human Resources

Voluntary Severance Package

As part of the renewal strategy Dockyard embarked on a skills renewal and review project. This was achieved through the Voluntary Severance Package, which was opened for application for all employees. This was subject to review and approval based on the operational and human capital requirements. A total of 44 applications were approved across all Dockyard Divisions. This opened an opportunity to repurpose, review and realign the skills required to achieve the key objectives and mandate of the Dockyard. The Dockyard was thus able to capacitate the workforce with technical and engineering skills that will align to the renewal and rejuvenation strategy to sustain capabilities and align with technological advances.

Recruitment

There were 70 new appointments made in the reporting period. This assisted in filling the technical gaps that contribute to the effective and efficient maintenance and repair of the SA Navy vessels. The Dockyard managed to appoint 47 females in technical positions. Two of these females were appointed as supervisors adding to the current two supervisors appointed in the previous financial year. This demonstrates a concerted effort of transformation and recognising females in leading roles within the technical field. The Dockyard continues to grow and promote skills development and creates an environment that contributes to the alleviation of unemployment. It is thus important to reflect that two of the appointments were absorbed from the talent development pool and 19 of the artisans appointed were trained and qualified in the Dockyard through the apprenticeship programme.

SUPPORTING FUNCTIONS

BUSINESS ASSURANCE

BUSINESS ENABLEMENT

CORPORATE SUPPORT

CORPORATE FINANCE

2.3 SUPPORT FUNCTIONS

2.3.1 Business Assurance

Quality

The primary roles of the Quality function are: corporate quality management, quality engineering services and quality assurance services to Armscor, the DOD and other clients by means of General Quality Assurance agreements. This consists of both the technical and the audit functions for assuring the technical integrity and quality management processes during the acquisition phases of programmes and projects, and the development of internal processes. The Quality function is involved in all aspects, from the user requirement statement stage through to commissioning.

QUALITY ASSURANCE

Capability & Service Offering

Requirements Solicitation and Design Assurance

- User requirements are well defined, unambiguous and verifiable
- Specifications reflect user requirements
- Design meets appropriate design standards

Product Verification

- Product meets the specification
- Verifications methods:
  - ✓ Inspections (Physical & code)
  - ✓ Functional testing
  - ✓ development & production environment qualification tests

Product Validation & Certification

- Validate to ensure acquired product operates as required
- Certification to ensure that safety systems - both airborne and surface based meet stringent requirements as set out by different certification authorities

Product Logistics

- Provides assurance that the product will meet the reliability, usability, maintanability and training requirements
- Assurance for proper packaging, handling, storage & transportation (PGS&T)

SUPPORTING FUNCTIONS

Corporate Compliance function is aimed at discharging the Corporation's responsibility to comply with applicable statutory, regulatory and policy requirements. This is done through incorporating and embedding compliance principles in all existing processes throughout the Corporation, monitoring, and reporting on the compliance risk.

Armscor's mandate, amongst others, is to advance the Corporation's broad-based black economic empowerment (B-BBEE) goals and objectives in compliance with national government's policies and strategies. Furthermore, Armscor acknowledges that to be an effective acquisition agency of the DOD, it must not only comply with international law and arms control legislation, but also support the national arms control authority to improve arms control legislation. The arms control legislations facilitate the flow of defence matériel for the benefit of the SADI. Armscor conducts its business in compliance with South African defence trade legislation and defence export controls of supplier countries.

Armscor's Quality function follows a multi-dimensional approach to quality management, and entails the following services:

- **Quality Management System (QMS)** – Development and maintenance of the corporate QMS in accordance with recognised international standards and best practices/end-user.
- **Supplier Quality Management** – Management of supplier performance throughout the acquisition and supply chain process to ensure delivery of defect free products to the client.
- **Supplier Source Selection/Tender Process Assurance** – Quality assurance of the tender/supplier source selection process to ensure adherence to supply chain management practices and related treasury regulations.
- **3rd Party/Government Quality Assurance (GQA)** – Product quality assurance service provided to all interested parties to independently verify or confirm product conformance with specification.
- **Safety, Health and Environment (SHE)** – Development and maintenance of the Corporate SHE management system to ensure compliance with statutory and regulatory requirements.

Quality Management System

The Corporation has established a QMS that conforms to the requirements of ISO 9001:2015 Standard (Requirements for QMS). To keep the international recognition and competitive edge, Armscor laboratories and testing facilities are further certified or accredited to other international standards. Alkantpan Test Range is accredited in accordance with ISO/IEC 17020:2012 for the inspection of explosive facilities, equipment and processes. Gerotek Test Facility is accredited for electrical, mechanical, physical, performance and electromagnetic compatibility (EMC) testing, in accordance with ISO/IEC 17025:2005. Protechnik Laboratory is also accredited in accordance with ISO/IEC 17025:2005, but for chemical and physical analysis.

During the reporting period, the Corporation has maintained its ISO certification across all its facilities, following successful completion of the surveillance and re-certification audits.

Supplier Quality Management

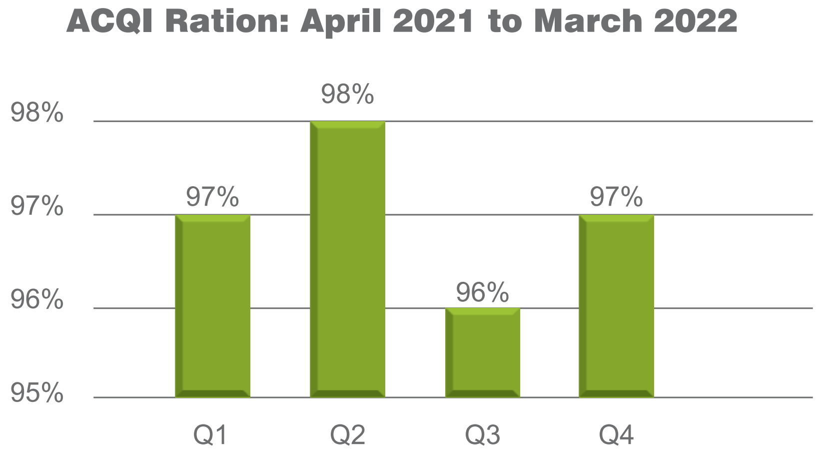
The Supplier Quality Management function is performed by a dedicated team of quality representatives. The team ensures that quality is carefully designed into the build process, thus into the product itself, and not checked only at the end of the product development process.

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 following:

- Supplier's QMS status
- Inspection Release Certificate (K225) and Rejection Notes (K226) issued
- Deviations/Concessions Permit (K228) issued
- Corrective Action Requests (K229) issued

During the reporting period, a large percentage of suppliers have performed well, and achieved an ACQI rating of between 96% and 98%, as reflected in Figure 8.

Figure 8: Armscor Contractor Quality Index



3rd Party/Government Quality Assurance

As a subset or component of the Supplier Quality Management function, the Corporation provides a product quality assurance service on a second party or third party basis. The DOD remains the primary client for second-party quality assurance, with this service being extended to other organs of state such as SAPS and Department of Correctional Service (DCS), as and when needed.

Governments of ally countries and private entities receive third-party/GQA service at a fee to contribute to both the sustainability of the Corporation, and continual skills enhancement of the quality team. During the reporting period, the GQA revenue generated is approximately R4m, and is above the annual target of R3m.

Safety, Health and Environment (SHE)

In order to demonstrate committment to the management of SHE in the workplace, Armscor management has established a Compliance Risk & Management Committee (CRMC) to monitor and review SHE related incidents and non-conformances on a quarterly basis. To ensure that an acceptable level of compliance to SHE requirements is achieved, the Corporate SHE Division conducts assessments on a quarterly basis at all Armscor sites. This assists in ensuring that corrective measures are implemented to address any non-conformances that may arise. To date, 85% of non-compliances identified in the previous SHE legal compliance audit have been cleared.

Armscor's SHE Management System Certification to ISO 14001:2015 Environmental Management System (EMS) standard at its test facilities in Gerotek and Alkantpan remain valid, following successful completion of the annual surveillance audits by the certification bodies. Preparation for ISO certification at the Armscor Head Quarters has started. A preliminary assessment or gap analysis to assess readiness for Stage 1 Certification has been completed, with a corrective action plan established to close all the gaps identified before the next stage 1 follow-up audit at the end of June 2022.

In accordance with the government's disaster management and COVID-19 pandemic regulations, the Corporation developed a plan to mitigate against the COVID-19 pandemic risk. The plan outlined mitigation measures to be adopted to reduce the impact and spread of the COVID-19 pandemic infection in the workplace, which included amongst others staff rotation/reduction, use of PPEs and remote working arrangements, where possible.

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 reporting period, Legal Services provided support to internal stakeholders ranging from furnishing of formal legal opinions, drafting of various agreements, negotiations of agreements, management of litigation, including settlement of disputes and the provision of general legal advice.

SUPPORTING FUNCTIONS

Litigation

The following Litigation matters are addressed in the Directors' Report:

- Beverly Securities
- Quaker Peace Centre
- Patria Land OY
- Steradian Energy (Pty) Ltd
- Frontline Occupational Safety Consulting and Services CC.

Arms Control Compliance

The main objective of the Arms Control Division is to develop, implement and maintain processes and procedures that are necessary for the execution of arms control compliance. The function is aligned to the National Conventional Arms Control Committee Act, No. 41 of 2002, and Non-Proliferation Act, No. 87 of 1993, Firearms Control Act, No. 60 of 2000, Explosives Act, No. 26 of 1956 and requirements of supplier countries.

National Conventional Arms Control Compliance Verification Inspection Report

The compliance verification inspection conducted by the National Conventional Arms Control Inspectorate on Armaments Corporation of South Africa (SOC) Ltd's trade in conventional arms over the period 1 April 2017 to 31 March 2019, and submitted to the National Conventional Arms Control Committee on 25 November 2021. The outcome of the compliance verification inspection conducted by the National Conventional Arms Control Inspectorate, confirmed that Armscor was found to be compliant.

Arms Control Asset Tracking System

The Arms Control and Asset Tracking System (ACATS), an in-house developed system, is operational and is continuously improved to ensure that it is aligned to the current operational requirements and meets compliance obligations as is necessary.

During the reporting period, several enhancements were initiated and implemented on ACATS such as the following:

- Window to apply for Armaments Development Manufacturing and Services (ADMS), Contracting and Marketing permits
- Window to capture the issued permit
- Window to apply for amendments to existing permits.

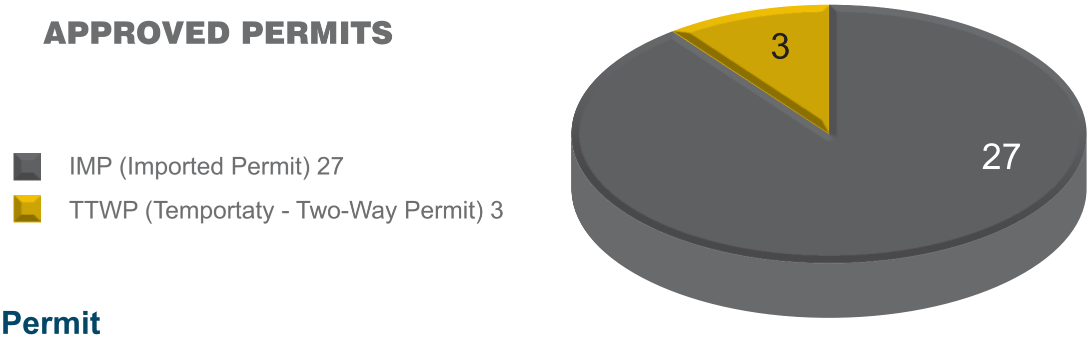
In addition to this, the letters across all windows were reviewed and new changes were successfully implemented on the live system.

SUPPORTING FUNCTIONS

Status for Permit Applications

There were 30 permits approved during the reporting period and the breakdown is presented in Figure 9.

Figure 9: Approved Permits



Import Permit

- There were 27 permanent import permits issued for the reporting period.
- From permits issued, 10 permits were cancelled, 12 permits have been finalised (i.e. the transfer of items has taken place and pink copies to confirm shipment have been submitted to Directorate of Conventional Arms Control (DCAC), 5 permits are still open (i.e. the transfer of items has not taken place).

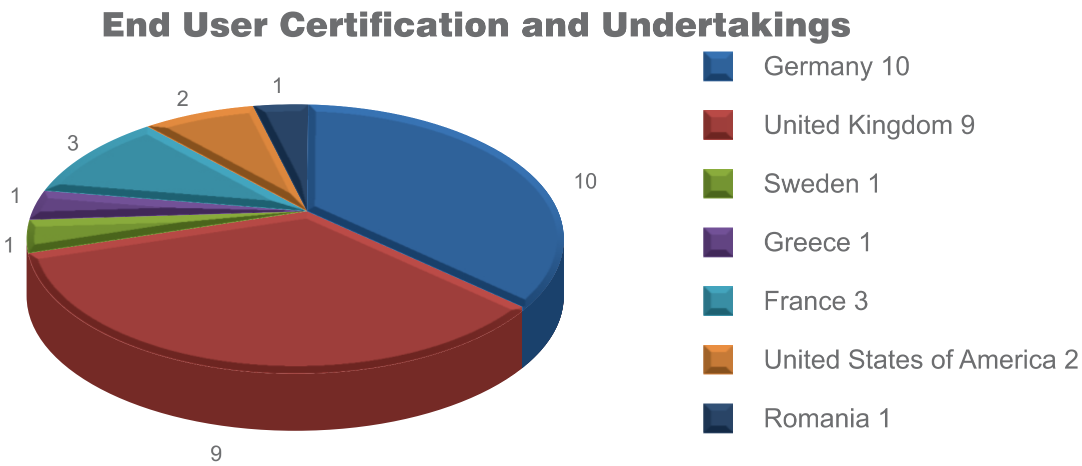
Temporary Two-Way Permits

- There were 3 temporary two-way permits issued for the reporting period.
- From permits issued, two have been finalised (i.e. the transfer of items has taken place and pink copies to confirm shipment have been submitted to DCAC) and one permit is still open (i.e. the shipment has not yet taken place and the permit is still valid).

Status for End-User Certificates/Undertakings

There were 27 End-User Certificates/Undertakings processed and issued, and all were accepted by the requesting countries. The details are reflected in Figure 10 below.

Figure 10: End User Certificates and Undertakings



Status for Approval of Extension of the Authorised Period

There were 60 applications received to request extension of authorised period for temporary permits.

Out of the total, 23 of these applications were approved and 37 are still in processing at DCAC.
It is anticipated that these will be approved in the next NCACC meeting.

SUPPORTING FUNCTIONS

ARMS CONTROL ASSET TRACKING SYSTEM MAINTENANCE

ACATS technical specifications are currently under review to incorporate all enhancements to date since implementation in July 2014. The first part of the document is currently under review. Due to the amount of work involved, it is anticipated that the document will be completed on 30 September 2022.

PERFORMANCE AGAINST INTERNAL COMPLIANCE PROGRAMME

1. Update Arms Control Compliance information on Armscor website and on intranet:

- Arms control information has been updated on Armscor website
- The applicable acts, regulations, and treaties have been posted on the website.

2. As a minimum, two awareness/work sessions shall be conducted on an ad-hoc basis at the request of Divisional Managers:

- An awareness session was conducted on the 16 and 30 March 2022. The session was well attended virtually
- Arms control is planning to conduct the last session for remote facilities (Alkantpan, IMT and Dockyard).

3. Client surveys shall be performed every six months as part of performance management and the outcome shall be used as a tool for assessing the effectiveness of ACD processes in the execution of the Arms Control Compliance function within Armscor:

- Training evaluation forms were handed out to all training participants. Based on the feedback received the participants were well pleased with the presentation and found it relevant and applicable to their respective work areas. There were suggestions for improvement, which Arms Control will incorporate in the upcoming sessions.

The performance of the Arms Control Division has been found satisfactory for the reporting period. The process to manage applications for permits and end-user undertakings is progressing well and adherence to compliance procedures is satisfactory throughout the Corporation including remote sites.

Compliance and Risk

In terms of Section 51 of the PFMA (Act No.1 of 1999), “the accounting authority of a public entity must ensure that the institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”

Effective risk management is a keystone of effective corporate governance and the maintenance of a strong control environment. The aim of risk management is not to remove all risks, but to understand the nature of risks and to implement controlled, sensible, balanced and cost effective measures. It also manages risk and achieves objectives within each activity and across the portfolio of all activities.

Armscor is committed to managing all risks, which could prevent the achievement of its strategic outputs; while at the same time not limiting its ability to attain the same objectives by taking on an acceptable level of risk. Risks are viewed and assessed holistically and not in isolation, since a single transaction or event may have a significant impact on other risks, or be triggered by other risks.

RISK GOVERNANCE

The Armscor Board of Directors has promoted a 'risk-matured or risk-intelligent' culture and set the risk management tone through the approval of the Risk Management Policy and Framework.

Maturity has been assessed and confirmed by an independent service provider. Further, independent reviews of the Risk Management function and processes is performed by Internal Audit regularly.

The Board, in discharging its risk management responsibilities, is supported by the Audit and Risk Committee whose main responsibilities are to ensure that Armscor has implemented an effective Risk Management Strategy that will enhance Armscor's ability to achieve its strategic outputs.

ARMSCOR RISK MATURITY ASSESSMENT

In terms of Principle 11.7 of the King IV Report on Corporate Governance, "The governing body should consider the need to receive periodic independent assurance on the effectiveness of risk management."

In line with the above requirement, the Audit and Risk Committee requested that an independent Risk Maturity Assessment be conducted for Armscor.

The outcome of the assessment allocated positioned Armscor at Maturity Level 4: Information/Emerging.

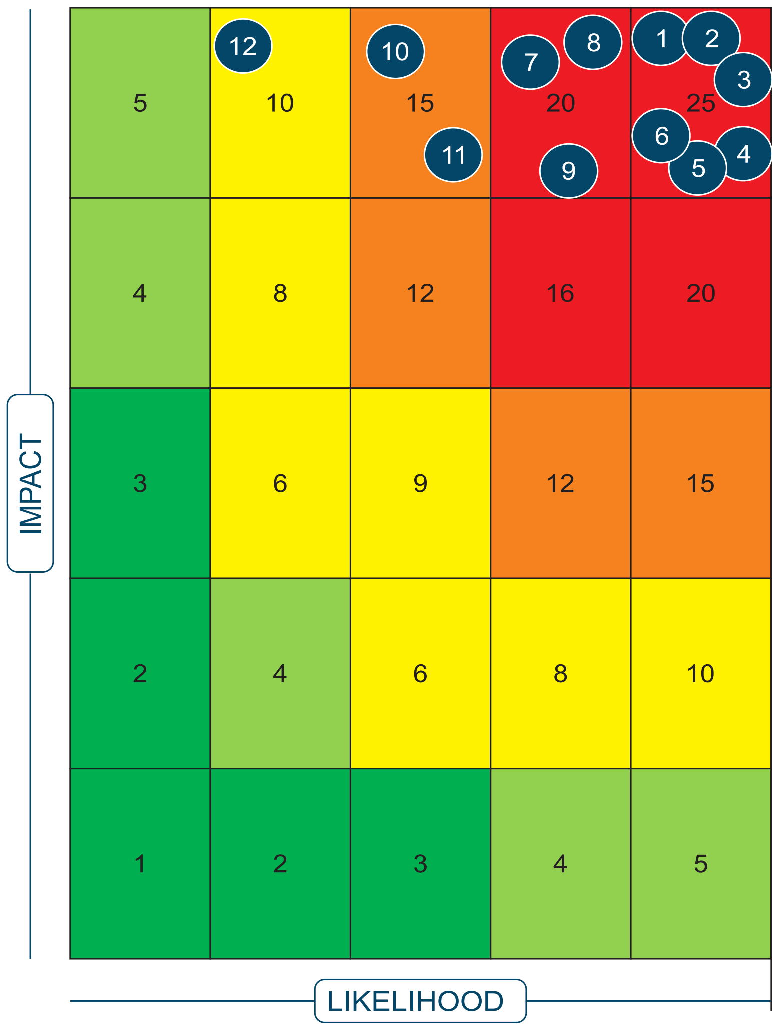
CORPORATE STRATEGIC RISK REGISTER

In fulfilling its governance oversight responsibility, the Board identified 12 strategic risks, which could threaten the achievement of the Armscor's strategic goals and performance targets.

The risk management culture is maturing; however, the strategic risk profile has not improved much over the past three years.

The heat map in Figure 11 presents a summary of the Corporate Strategic Risk profile:

Figure 11: Risk ratings



Priority 1 Risk:
- Very High Risk Area
- Risk is at Risk Bearing

Risk 1 : Reduction of all the capital budget which will have an impact on Armscor's contractual obligations.
Risk 2 : Financial sustainability of Armscor and loss of capabilities due to failure to fully commercialise
Risk 3 : Cyber-attack
Risk 4 : Inadequate Business continuity management
Risk 5 : Loss of industry capabilities
Risk 6 : Inability to effectively and efficiently execute strategic and operational objectives due to non-supportive IT Systems
Risk 7 : Vulnerability to counter intelligence threats resulting in the compromise of security classified information
Risk 8 : Lack of optimal functioning of systems in the HQ building due to aged infrastructure
Risk 9 : Non-Payment of monies owed by Department of Defence (DOD) and Department of Public Works and Infrastructure (DPWI) resulting in Armscor incurring loss

Priority 2 Risk:
- High Risk Area
- Risk is at the RBC Tolerance

Risk 10 (Previously Risk 4) : Non-compliance with SHE statutory and regulatory requirements resulting in inability to deliver on the mandate
Risk 11 : Reputational risk due to association (negative perception of State Owned Enterprises)

Priority 3 Risk:
- Medium Risk Area
- Risk is at the RBC Tolerance

Risk 12 : Global Covid-19 Pandemic

Table 7: Corporate Strategic Risks

No.	Corporate risk	Mitigating actions
1.	Reduction of the capital budget, which will have an impact on Armscor's contractual obligations.	a) Motivate for additional funding from the DOD. b) Propose early termination of certain contracts to limit exposure to fruitless expenditure.
2.	Financial sustainability of Armscor and loss of capabilities due to failure to fully commercialise.	a) Reduction of dependency on the transfer payment by looking into other revenue streams. b) Identify and monitor initiatives for generation of income and cost saving. c) Implementation of a review/evaluation process on projected income from revenue generation initiatives. d) Implement the Dockyard Commercialisation strategy.
3.	Cyber-attack.	a) Establishment of the Cyber Innovation Division that will allow Armscor to write its own code to enable the establishment of digital auditing teams (31 March 2025). b) Integration of technologies at the Security Operations Centre. Acquiring and deployment of enhanced security incident and events monitoring tools. Revised date (31 March 2023).
4.	Inadequate Business Continuity Management.	a) Review and implement integrated Business Continuity Plan.
5.	Loss of industry capabilities	a) Periodically engage industry and contractors through assessment of capabilities. b) Development of a contracting model to enable payment of suppliers and subcontractors directly. c) Engage with potential alternate suppliers of critical spares and services for product systems of which Denel is the OEM. Develop suitable contracting models to involve alternate suppliers as main contractors and implement the transition from Denel to suitable alternate suppliers/service providers. d) Prepare a request to the DOD for funding for R&D Capabilities through a Memorandum of Agreement.
6.	Inability to effectively and efficiently execute strategic and operational objectives due to non-supportive IT systems.	a) Implementation of the ERP system: i. Appointment of a service provider. ii. Review of project plan with service provider. iii. Implement ERP project plan.
7.	Global COVID-19 pandemic.	a) Monitor, Review and Update COVID-19 pandemic Mitigation measures as and when required.
8.	Vulnerability to counter intelligence threats resulting in the compromise of security classified information.	a) Engage Chief Defence Counter Intelligence about the delays in the adjudication process and inform EXCO of the outcome. Continuously, submit files that are ready for evaluation to the panel for consideration (ongoing). b) Monitoring of Limited Access Authority process of dual/foreign citizens (ongoing). c) Implement Information security awareness sessions. (Revised date 31 March 2023.)

No.	Corporate risk	Mitigating actions
9.	Lack of optimal functioning of systems in the HQ building due to aged infrastructure.	a) Implementation of the facilities management plan. The following are priority areas: i. Roof waterproofing. ii. Air-conditioning system. iii. Lifts (replacement of controllers) (31 July 2022). iv. Access Control Systems. v. The PABX system and the Telephone management system have been updated. vi. Procurement of generators for back-up site.
10.	Non-payment of monies owed by DOD and DPWI resulting in Armscor incurring losses.	a) Armscor has requested the DPWI to schedule a meeting with Special Investigating Unit (SIU) and invite Armscor, to resolve the short payment (ongoing). b) The long outstanding DOD amount in respect of a separate rental agreement, will again be raised at Ministerial level and DOD structures. c) Conclusion of new rental agreement between the DPWI and Armscor.
11.	Non-compliance with SHE statutory and regulatory requirements resulting in inability to deliver on the mandate.	a) Develop and implement SHE Awareness and Training Plan (31 March 2023). b) Conduct audits and quarterly reviews as per the approved SHE audit plan (April 2022 - 31 March 2023): i. Conduct planned annual SHE legal compliance audits. ii. Monitor the implementation of corrective actions. c) Maintain ISO SHE certification: i. Recertification of ISO standards every three years. d) Review and update the Hazard Identification & Risk Assessment (HIRA) Register at Corporate Level (September 2022). e) Monitor and report progress on the implementation of HIRA mitigation measures (December 2022 - 31 March 2023).
12.	Reputational risk due to association (negative perception of State Owned Enterprises).	a) Testing of the approved Fraud Prevention Plan (31 March 2022). b) Rollout the Code of Conduct and Ethics Implementation Plan.

Broad-Based Black Economic Empowerment

The BEE Division monitors compliance to the prescripts of the B-BBEE, Preferential Procurement and the Defence Sector Code by entities doing business with Armscor. It ensures that Armscor meets its B-BBEE targets.

The report below depicts analysis of procurement and B-BBEE spend per Business Unit and or Department.

B-BBEE Spending Report

NOTE: Actual spend based on B-BBEE recognition levels up to 135%.
If a supplier has a level 1 B-BBEE status, the B-BBEE recognition level is 135%

Table 8: Acquisition

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R3 640 159 539,02	R3 709 548 586,49	101,91%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE ACTUAL %	B-BBEE TARGET%
Above R35m turnover	R1 607 115 324,71	R2 025 811 511,39	55,65%	0,00%
QSEs	R356 670 652,24	R417 844 810,27	11,48%	15%
EMEs	R167 149 287,93	R208 587 429,98	5,73%	15%
Specialised above R50m	R1 350 468 870,60	R1 403 613 928,80	38,56%	0,00%
Non-Compliant	R160 356 097,52	R0,00	0,00%	0,00%
BOE >51%	R708 344 553,54	R776 016 238,89	21,32%	40%
BWOE >30%	R438 303 426,32	R278 694 565,98	7,66%	12%
BOE >25%	R2 039 584 285,33	R1 374 130 748,67	37,75%	0,00%
Foreign	R255 653 137,54	R0,00	0,00%	0,00%
Military Veterans	R10 426 013,95	R13 487 394,25	0,37%	2%
Youth	R3 535 993,84	R4 596 372,84	0,13%	2%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.	0,2% of annual turnover	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.	0,1% of annual turnover	Nil

LOCALISATION

Description	Weighting points	Defence Sector Code - Targets	Achieved
Procurement of defence matériel produced and/or manufactured in RSA by local enterprises.	6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL	**10**		

- Acquisition met the B-BBEE procurement spend on recognition levels target. Procurement targets from Qualifying Small Enterprises (QSEs), Exempted Micro Enterprises (EMEs), Black owned Suppliers, Black Women Owned, Military Veterans and Youth were not met.
- There was no spend on Enterprise and Supplier Development.

Table 9: Dockyard

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R17 947 407,55	R21 311 308,86	118,74%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE ACTUAL%	B-BBEE TARGET%
Above R35m turnover	R3 637 686,28	R4 303 255,88	23,98%	0,00%
QSEs	R5 082 947,83	R6 580 262,01	36,66%	15%
EMEs	R7 573 172,75	R10 022 359,08	55,84%	15%
Specialised above R50m	R1 155 576,73	R0,00	0,00%	0,00%
Non-Compliant	R498 023,96	R0,00	0,00%	0,00%
BOE >51%	R11 165 283,00	R11 043 293,24	61,53%	40%
BWOE >30%	R1 431 343,48	R4 638 026,70	25,84%	12%
BOE >25%	R17 947 407,55	R12 513 268,26	69,72%	0,00%
Military Veterans	R0,00	R0,00	0,00%	2%
Youth	R26 523,38	R35 806,56	0,20%	2%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.	0,2% of annual turnover	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.	0,1% of annual turnover	Nil

LOCALISATION			
Description	**Weighting points**	**Defence Sector Code - Targets**	**Achieved**
Procurement of defence matériel produced and/or manufactured in RSA by local enterprises.	6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL	**10**		

- The Dockyard met the B-BBEE procurement spend on recognition levels. The following targets have also been achieved, procurement from QSEs, EMEs, Black Women Owned Suppliers and Black Owned Suppliers.
- The Military Veterans and Youth targets were not met.
- There was no spend on Enterprise and Supplier Development.

Table 10: Operating Budget

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R85 817 004,09	R75 657 334,09	88,16%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE ACTUAL%	B-BBEE TARGET%
Above R35m turnover	R24 204 278,74	R31 915 559,43	37,19%	0,00%
QSEs	R33 338 691,98	R42 988 123,83	50,09%	15%
EMEs	R8 585 442,42	R11 586 527,20	13,50%	15%
Specialised above R50m	R1 373 523,06	R1 510 875,37	1,76%	0,00%
Non-Compliant	R8 674 162,45	R0,00	0,00%	0,00%
BOE >51%	R58 723 421,18	R57 367 355,99	66,85%	40%
BWOE >30%	R26 486 134,13	R16 897 743,47	19,69%	12%
BOE >25%	R65 331 833,05	R59 748 455,64	69,62%	0,00%
Military Veterans	R1 154 958,80	R1 559 194,38	1,82%	2%
Youth	R1 258 922,10	R1 684 084,52	1,96%	2%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.	0,2% of annual turnover	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.	0,1% of annual turnover	Nil

- The B-BBEE procurement spend target on recognition levels was met. The following targets were met on the Operating budget: procurement from QSEs, Black Owned Suppliers and Black Women Owned Suppliers. The targets on procurement from EMEs, Military Veterans and Youth were not met.
- There was no spend on Enterprise and Supplier Development.

Table 11: Research and Development

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R90 318 412	R92 953 081	102,92%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE ACTUAL%	B-BBEE TARGET%
Above R35m turnover	R13 133 914	R11 150 977	12,35%	0,00%
QSEs	R13 204 652	R17 029 101	18,85%	15%
EMEs	R25 688 737	R30 721 600	34,01%	15%
Specialised above R50m	R28 712 421	R30 158 413	33,39%	0,00%
Non-Compliant	R6 316 218	R0,00	0,00%	0,00%
BOE >51%	R29 078 760	R32 603 448	36,10%	40%
BWOE >30%	R11 902 251	R8 156 425	9,03%	12%
BOE >25%	R35 841 551	R35 195 636	38,97%	0,00%
Military Veterans	R0,00	R0,00	0,00%	2%
Youth	R5 470 237	R7 036 058	7,79%	2%
Foreign	R529 970	R0,00	0,00%	0,00%

SUPPLIER DEVELOPMENT	TARGET	ACHIEVED
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.	0,2% of annual turnover	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.	0,1% of annual turnover	Nil

LOCALISATION

Description	Weighting points	Defence Sector Code - Targets	Achieved
Procurement of defence matériel produced and/or manufactured in RSA by local enterprises.	6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL	**10**		

- R&D met the B-BBEE procurement spend on recognition levels. The following targets have been achieved, procurement from QSEs, EMEs and Youth.
- Procurement from Black Owned Suppliers, Black Women Owned Suppliers and Military Veterans targets were not met.
- There was no spend on Enterprise and Supplier Development.

2.3.2 BUSINESS ENABLEMENT

The Business Enablement function is primarily responsible for marketing the Corporation, its products and services to targeted markets in an endeavour to generate income for the Corporation and support the sustainability of the SADI.

The Business Unit also facilitates and administers the use of SANDF equipment, facilities and personnel by SADI. This is part of Armscor's marketing initiatives to support SADI in marketing its capabilities to local and international strategic partners. Furthermore, Armscor with the support of the Department of Trade, Industry and Competition (dtic), facilitates the participation of the defence-related industry at international shows and exhibitions to showcase its capabilities. Armscor continues to liaise with both the local and foreign stakeholders to promote Armscor and SADI.

Business Enablement is therefore responsible for the following:

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

Marketing and Business Development

Marketing and Business Development continually strives to be more efficient and responsive to the needs of clients by being externally focused with the explicit aim of improving the financial sustainability of the Corporation and SADI. A summary of the activities conducted during the reporting period follows:

Industry Marketing Support

Armscor provides an integrated defence industry marketing support service to SADI. The support includes facilitation of SADI's participation at local and international exhibitions; the management of requests for the utilisation of SANDF equipment, personnel and facilities for marketing exposure of SADI; as well as marketing the Corporation, its products and services through effective marketing communication channels in order to build and enhance the Corporation's brand and reputation. All these efforts are aimed at identifying and pursuing business opportunities for the benefit of the Corporation and SADI.

Defence Marketing Events

It is deemed important that SADI increases its exports to sustain its market share and survival in the competitive international defence environment. International exhibitions are recognised as one of the best channels to promote South African products and services to the international defence community. Showcasing South Africa's capabilities at international shows and exhibitions increases the potential to increase exports. 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.

SUPPORTING FUNCTIONS

Due to the relaxation of many of the COVID-19 pandemic restrictions imposed during the reporting period, Marketing and Business Development would this year resume some of its business activities, although in a slightly different format. This was further supported by the approval of both the Armscor Corporate Commercialisation Strategy and the Africa Focus Strategy on 7 July 2021 by the Board of Directors, which acted as a catalyst for many of the activities listed below:

- Armscor participated at the annual 7th Africa Security Symposium (ASEC 21), which was held virtually from 27 - 28 October 2021. ASEC21 was organised by GRV Global together with African Union (AU) Commission to engage on security situation in Africa. ASEC21 provided an opportunity to showcase Armscor's acquisition expertise, research and development capabilities with emphasis to support peace keeping operations in Africa. The role that Armscor can play in supporting African governments in finding technology solutions in safeguarding their borders was also highlighted. This event was on the list of exhibitions in the Africa Focus Strategy approved by the Board of Directors to pursue primarily, the Corporation's stakeholder engagement and revenue generation targets.
- Business Enablement Unit hosted the inaugural Armscor capability demonstration event on 10 and 11 November 2021. This 'show and tell' exhibition of the Corporation's prowess in defence technology took place at Gerotek, a venue synonymous with world-class testing and evaluation services. The adopted theme for the event was 'Celebrating Innovation and Technology Excellence in Defence and beyond'. This event was thus constructed to reflect the theme.
- The second Intra-African Trade Fair (IATF2021) was held from 15 to 21 November 2021 at the Durban ICC. Armscor participated in the event for the first time. IATF 2021 is organised by the African Export-Import Bank (Afreximbank) in collaboration with the AU and the African Continental Free Trade Area (AfCFTA) Secretariat. Armscor utilised this platform to promote its capabilities in the following areas:
  a. Flagship R & D products:
    i. UBRD
    ii. Hazmat filter cartridges and masks
    iii. Vistanet
    iv. Beach Barrier System
  b. Acquisition expertise
  c. Logistical solutions for Africa.
- The last exhibition that Armscor was involved in with SADI was the Dubai Expo 2020. As part of the South African programme for the Trade and Investment work stream, the dtic hosted a webinars on 10 November 2021. The webinar created a platform for the industry to engage with potential buyers by positioning South Africa as supplier of choice and promoting South Africa's defence industry capabilities. Armscor presented its border management solutions at this webinar.

Special mention must be made to Africa Aerospace and Defence (AAD) as this event remains significant to Armscor as a partner to AAD. The AAD exhibition and air show remains the flagship event for South Africa's – and indeed the Continent– defence and aerospace industries. The hosting of AAD event, for the past 21 years, has made a significant contribution to growing the South African economy and that of its neighbouring countries through leveraging intellectual property into tangible products and export contracts.

The decision to defer the hosting of the11th edition of AAD (initially scheduled to have taken place September 2020) to 21 - 25 September 2022, presents the ideal opportunity to engage in an aggressive drive to deliver a bigger offering than in previous years. Some of the initiatives identified include the diversifying of participation to include mining, oil and gas, security, and Remote Piloted Aerial Systems (RPAS).

Defence Equipment Personnel Support

Armscor provides marketing and matériel aid support to the SADI by facilitating the use of SANDF equipment, personnel and facilities through Defence Equipment Personnel Support (DEPS). This function 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. During the reporting period, the number of requests continued to decrease, reflective of the state of the decline is defence spending in South Africa. However, payments to the DOD increased by over 300% from previous year to R1 309 241.55. DEPS also supported various SADI companies with their marketing export activities to countries in the Middle East.

Defence Foreign Liaison

Armscor, through its Foreign Liaison activities, supports Government's foreign policy objectives by hosting international delegations with the purpose of promoting diplomacy and trade. The COVID-19 pandemic has had a major impact on planned activities during the reporting period with many bilateral meetings being cancelled. However, the following activities took place as part of Armscor's strategic output to generate revenue.

SUPPORTING FUNCTIONS

During the reporting period, Armscor CEO had a courtesy meeting with the Brazilian Ambassador, HE Sergio Franca Danese, which emanated in the hosting of a RSA/ Brazil Defence Industry webinar on 28 - 29 October 2021. The webinar allowed both country's industries a better appreciation of the respective government policies on procurement and the respective industry capabilities for match-making.

Armscor hosted outbound defence attachés at its headquarters on 27 May 2021. The purpose of this gathering was to not only bid farewell, but to also strategically engage with some of South Africa's defence attachés who will replace attachés whose terms of international deployment have come to an end. South Africa's defence attachés have been amongst other diplomatic responsibilities tasked to represent South Africa on defence related matters in various countries globally. These men and women in uniform have been chosen from all arms of service as preferred candidates to advance South Africa's defence diplomacy efforts and represent the country internationally for a fixed term.

During the reporting period, the Armscor CEO hosted a courtesy visit from the Egyptian Defence Attaché and Dean of MAAC, Brig Gen Harb. This was aimed at strengthening relations with Egypt and specifically the Armaments Authority of Egypt.

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. The range of stock includes aircraft, spares, vessels, land and/or air-based equipment and ammunition larger than 12,7mm. Disposal of the defence matériel is carried out in accordance with the requirements of the DOD and regulatory requirements such as the NCACC and the Non-Proliferation Council (NPC).

DDS is working with DOD's Logistics Division to identify and expedite stock that needs to be disposed. The expedited disposal initiative is a means of identifying, analysing, organising and disposing defence matériel in an expedited manner within existing DOD and Armscor procedures.

Despite COVID-19 pandemic challenges, DDS was successful in selling redundant equipment to the local defence industry. Furthermore, DDS disposed of obsolete and redundant naval spares to several local scrap dealers.

Business Development

Armscor continues to develop its Business Development function by enhancing its business acumen and processes. It has continued to market and promote Armscor capabilities within South Africa and the African continent through bilateral trade engagement.

In the South African market, Armscor has made headway in collaborating with other local government departments and arms of state to assist with procurement needs and other requirements, using its strong acquisition capability and security solutions. Armscor has signed several agreements with South African government entities for the provision of acquisition services e.g. ATNS, SAPS, and DCS. This has resulted in Armscor supporting some of these entities to acquire urgent and important operational equipment.

In addition to this, the team has continued to receive some requests from African countries, making Africa a very valuable market for Armscor. Furthermore, the team has made inroads in the SADC region, receiving and assisting with acquisition requests and orders in countries within the region. The strategy is to ensure that relationships are built and sustained in these regions to further strengthen foreign relations.

AB Logistics Foreign Forwarding Services

AB Logistics (ABL) 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 Division is a registered and accredited customs clearing agent with the South African Revenue Services (SARS). ABL is proud to have maintained its registration as a registered transporter of hazardous, weapons and ammunition cargo in terms of the Explosives Act and Firearms Control Act. In terms of the South African Arms Control Regime, ABL is registered with the NCACC and the South African Council for the Non-proliferation of Weapons of Mass Destruction.

ABL is a member of:

- the International Federation of Freight Forwarders (FIATA)
- the South African Association of Freight Forwarders (SAAFF)
- the Road Freight Association (RFA)
- South African Maritime Safety Authority (SAMSA)

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 operations in Africa.

AB Travel

AB Logistics Travel is a registered member of the International Air Transport Association (IATA) and the Association of South African Travel Agents since 1990. It is responsible for the travel arrangements of DOD, Ministry of Defence and Military Veterans and Armscor, which totals an estimated amount of 76 000 individuals (clients). AB Travel offers a diversified range of travel arrangement support, including air travel, land travel, car rental, busses, VISA applications, accommodation and other related services.

Unfortunately due to the lockdowns, other income streams have been almost non-existent. The business of freight logistics and travel has been severely impacted by the COVID-19 pandemic.

2.3.3 CORPORATE SUPPORT

Armscor endeavours to build, maintain, and strengthen relationships with all its stakeholders through different marketing communication and engagement platforms. This is aimed at creating awareness of Armscor's capabilities and enhancing the Corporation's image and reputation. Armscor also actively supports the upliftment of communities in which it operates. As a service Corporation, Armscor's people are its backbone and the need to maintain capabilities has increasingly become the main area of challenge from the human capital management point of view. Armscor's strategy seeks to consistently improve the Corporation's effectiveness and customer service through effective ICT systems. Personnel security, information security and physical security within Armscor and the defence related industry, forms part of the overall security governance. Maintenance of the infrastructure and operational procurement activities required by the Corporation, is the responsibility of the Business Unit.

Corporate Support expertise encompasses:

- Transformation
- Learning and development
- Succession planning
- Corporate communication
- ICT operations
- Enterprise architecture and information management
- Information security
- Business support centre
- Finance; contract administration and governance
- Maintenance of the infrastructure and operational procurement activities
- Security functions

Stakeholder Relations

Stakeholder management remains one of Armscor's strategic outputs. The Corporation strives to build, maintain and strengthen relationships with all its stakeholders. These include providing ongoing support to SADI, communities and other industries.

During the reporting period, a number of initiatives were completed in an attempt to enhance the image of the Corporation and position Armscor as a good corporate citizen.

Corporate Social Investment

Armscor strives towards covering all provinces with respect to social responsibility activities within its limited financial constraints. Close attention is also paid to communities around which it has business operations and facilities in order to enhance its brand value and to strengthen relations. Armscor currently has a Corporate Social Investment (CSI) footprint in all provinces.

The focus of the CSI is on education to assist learners from previously disadvantaged communities to improve their performance and results in the Science, Technology, Engineering and Mathematics (STEM) subjects. Corporate Communication Division continues to implement the CSI in line with the strategic direction of the Corporation. The CSI is divided into two components namely: Human Capital Development Programme and Socio-Economic Upliftment Programme.

SUPPORTING FUNCTIONS

Human Capital Development Programme

The Human Capital Development Programme is aimed at building human capital through supporting initiatives that are focused on learner enhancement, which assists learners specifically from previously disadvantaged communities to improve their performance and results in the STEM subjects. The Corporation also offers internship/apprenticeship, which aims to provide interns with on-the-job training to develop technical skills and gain work experience.

Learner Enhancement Programme

During the reporting period, Armscor supported the following initiatives focused on teacher and learner enhancement:

- Provided a year supply of sanitary towels to learners in various schools in the Limpopo province
- Provided support for learners to access a robotics programme to promote STEM subjects in the Northern Cape Province
- Provided school uniform and back packs as part of back to school programme in the Gauteng and North West Provinces
- Supported fundraising initiative to purchase school uniform and sanitary towels for learners in the Eastern Cape Province
- Provided meals, transport and stationery to learners in the Western Cape Province
- Donated tables, chairs and reading materials for learners in the Gauteng Province
- Provided school uniform, dignity packs, blankets and food parcels to learners in the Gauteng province.

Socio-Economic Upliftment Programme

This CSI programme is aimed at improving lives of communities and creating an inclusive economy. It is also focused on providing social relief in cases of emergencies/disaster relief and charitable/good causes. As a result of the COVID-19 pandemic, Armscor received increased requests for social relief assistance from communities struggling to survive.

During the reporting period, Armscor assisted in the following activities:

- Supplied a borehole, water pump, irrigation connectivity and seeds for vegetable farming in the Mpumalanga Province
- Funded the Basadi Farmers Market Project to assist women in farming in the Gauteng Province
- Donated Life Line Kits to severely abused and abandoned children in the Gauteng Province
- Donated towards the feeding scheme project in support of poverty alleviation in the Western Cape Province
- Provided groceries to children living with cancer in the Gauteng Province
- Provided groceries and obsolete furniture to an orphanage in the Gauteng Province
- Donated gardening equipment, a month supply of nappies, washing machine and heavy duty clothing press to an old age home in the Northern Cape Province
- Provided early child development centre with tables, chairs, mattresses, blankets, toys, gas stove and pots in the Limpopo Province
- Provided support to conduct outreach programmes on HIV/AIDS, COVID-19 pandemic and GBV awareness in the Mpumalanga Province.

During the reporting period, Armscor approved and funded 30 projects that assisted disadvantaged communities across the nine provinces of South Africa.

Media Relations

Armscor continues to enjoy a good relationship with the media by availing itself whenever there are issues that needs clarity.

During the reporting period, the Corporation received (10) media enquiries as follows:

- The DefenceWeb regarding Gripen maintenance and support contracts
- The Sunday Times regarding latest developments in the Naval Dockyard
- Sunday Times regarding the cable restorer vessel at Simon's Town
- Ground Up regarding the procurement of the SANDF uniform
- DefenceWeb regarding NEHAWU's allegations against Armscor management
- DefenceWeb regarding an Enterprise Supplier Development tender
- Sunday Times regarding the disposal of old navy vessels
- Sunday Times regarding suspension of employees at Dockyard
- SABC's Cutting Edge regarding the memorandum handed over by the Siyathemba Community during a protest at the Alkantpan Testing Facility
- Sunday Times regarding the cases of break-ins reported, outsourcing of critical capabilities and the impact of budget cuts at Dockyard.

SUPPORTING FUNCTIONS

Marketing and Advertising

Advertisements and advertorials promoting Armscor's capabilities, its products and services to the various stakeholders were placed in the following publications:

- African Insider magazine
- Shipyard magazine
- Ultimate Defence magazine
- African Decisions magazine
- DefenceWeb
- AMD Coffee Table booklet
- Africa Advertising
- DOTCOM Africa
- Government Online.

Information and Communication Technology

Armscor Business Applications Renewal Programme

Armscor has embarked on an applications renewal exercise with the aim of modernising the application landscape. Most of the systems currently being used are disparate and outdated.

Enterprise Renewal Programme

The implementation of an Enterprise Resource Planning (ERP) system will see a replacement of a bulk of the legacy systems. The evaluation of bids has since been completed and a preferred solution was identified. The Board of Directors approved the submission for order placement on 1 December 2021 subject to clarification of some aspects with the National Treasury.

PaySpace

In the previous financial year, Armscor was faced with a risk of not being able to process payroll functions from 1 April 2021, owing to unavailability of a payroll system. The old payroll system (i.e. Unique) reached end-of-life and end-of-support on 31 March 2021. Due to the delays experienced with the ERP tender process, a new payroll system, namely PaySpace, was then implemented successfully during the reporting period. With PaySpace employees have 24/7 access to their personnel information such as payslips and IPR5 certificates. By implementing PaySpace, Armscor laid a good foundation for the implementation of ERP.

Improving Business Efficiency

In an effort to support the Corporation to improve its operations efficiencies, a Visitor Management System (VMS) was implemented.

Visitor Management System

This system replaced the manual process of registering visitors and contractors at the Armscor Head Quarters building. The old process was time consuming and not entirely efficient when it comes to tracking the visitor's movement throughout the building. This in itself posed a security risk. The new system essentially automated the existing visitor management processes. Armscor Head Quarters' visitors and contractors are now issued with temporary access cards that are activated to open the applicable entrance/exit points in the building. This way, the visitor or contractor movement can be traced. The plan is to ultimately integrate the VMS into the boom gates for improved security at entry into the premises. The system will also be rolled-out to the remote sites in future.

SECTION 3
HUMAN CAPITAL MANAGEMENT

Human Capital Management

Employees are key to Armscor's success and realisation of its corporate vision and plan. As part of Armscor's employee value proposition, the Human Resources Department has put together a number of programmes and initiatives during the reporting period. The programmes are implemented to ensure that employees remain engaged to the Corporation. The human capital section covers the following areas implemented during the reporting period: staff profile, employment equity, learning and development and succession planning.

Staff profile and Employment Equity

Armscor is committed to a national transformation agenda that advances employment equity in the workplace. Armscor has been undertaking numerous interventions to shape its future and the transformation journey.

Through its employment equity programmes, Armscor strives to create and retain a diverse workforce at all levels of the Corporation, both as a competitive advantage and to ensure achievement of its transformation objective. To this end, the Corporation is committed to recruitment and retention of competent workforce that is truly representative of all sections of society.

Table 12 depicts Armscor staff profile as at March 2022 and is inclusive of employees on the Talent Development Programme and fixed term contract employees. The total staff complement at the end of March 2022 was 1 375 compared to 1 477 as at 31 March 2021, a decrease of 7,42%. The decrease in staff total is mostly due to employees taking up the offer for VSPs and employees reaching retirement age.

HUMAN CAPITAL MANAGEMENT

Table 12: Human Capital profile progress 2021/22 financial year

STAFF PROFILE AT 31 MARCH 2022											
Occupational Category	**AM**	**AF**	**CM**	**CF**	**IM**	**IF**	**WM**	**WF**	**Total Male**	**Total**	**Grand Total**
Top Management	5	0	0	0	0	0	1	0	6	0	6
Senior Management	29	17	4	0	4	0	25	1	62	18	80
Middle Management	147	106	28	6	17	5	64	15	256	142	398
Skilled	144	173	118	40	4	10	11	37	277	260	537
Semi Skilled	58	17	81	9	1	0	9	0	149	26	175
Unskilled	26	45	2	7	0	0	0	0	28	52	80
TDP's	18	10	0	1	0	0	1	1	19	12	31
Fixed term Contractors	17	17	8	22	0	1	3	0	28	40	68
Grand-Total	**444**	**385**	**241**	**85**	**26**	**16**	**114**	**64**	**8.25**	**550**	**1375**
% Representation	**87.05**						**12.95**		**60.00**	**40.00**	

The core of Armscor's business is centred on the following occupations: Engineering, Science, Technical and Technical Support (SETTS). A percentage of employees within this category is currently at 49,53% as demonstrated in Table 13.

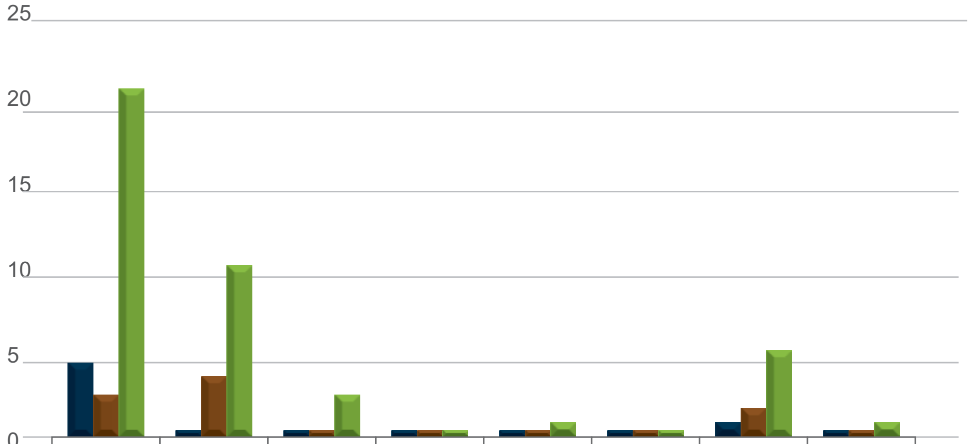
Table 13: Human Capital profile by Function 2021/22 financial year

	OCCUPATIONAL CATEGORY								
Function	**Unskilled**	**Semi Skilled**	**Skilled**	**Middle Management**	**Senior Management**	**Top Management**	**TOTAL**	**% of staff compliment**	**Technical Category %**
Engineering	0	0	10	114	39	0	163	11,85	
Science	0	0	3	34	5	1	43	3,13	
Technical	0	0	206	102	7	0	315	22,91	49,53
Technical Support	0	132	28	0	0	0	160	11,64	
Finance	0	3	45	21	3	1	73	5,31	
IT	0	0	38	23	3	0	64	4,65	
Professional Support	0	0	19	96	23	4	142	10,33	50,47
Support	102	54	240	19	0	0	415	30,18	
TOTALS	**102**	**189**	**589**	**409**	**80**	**6**	**1375**	**100**	

Performance against Employment Equity targets

The plan has been approved and focuses on the following key areas: increasing the representation of black people, women and persons with disabilities. During the reporting period, the overall target for black representation has been achieved. As a result, the new plan focus will be on increasing the representation of women and persons with disabilities in line with the new Department of Employment and Labour sectorial target. The representation of persons with disabilities was a challenge during the reporting period. Given the new strategies in place, it is anticipated that inroads will be made in the new financial year in as far as the appointment of women and people with disabilities is concerned.

Figure 12: Comparison of Corporation's structure level 1 to 3 in terms of race and gender as at 31 March 2022



	AM	AF	CM	CF	IM	IF	WM	WM
Level 1 (EXCO)	5	0	0	0	0	0	1	0
Level 2 (Executive Man)	3	4	0	0	0	0	2	0
Level 3 (Snr Man)	21	11	3	0	1	0	6	1

- Level 1 represent the members of Executive Committee (EXCO). As shown in the graph above, there are currently no women forming part of the EXCO.
- Level 2 represent the executive managers group. There is 44,44% women vs 55,56 % men.
- Level 3 represent the senior managers in Armscor. In this group there is 27,91% women vs 72,09% men.

Turnover rate

The corporate target for controllable staff turnover in technical positions, excluding retirements, should be less than or equal to 4,5%. During the reporting period, the staff turnover in technical function is depicted as follows: science 7,50%, engineering 1,96% and technical 2,03%. However, overall staff turnover for the reporting period was 2,44%.

Table 14: Terminations – Armscor 2021/22 financial year (Excluding Retirements, Death, VSPs and Contracts Expired)

	OCCUPATIONAL CATEGORY								
Function	**Unskilled**	**Semi Skilled**	**Skilled**	**Middle Management**	**Senior Management**	**Top Management**	**TOTAL**	**% of staff compliment**	**Technical Category %**
Engineering	0	0	0	2	1	0	3	153	1,96
Science	0	0	0	3	0	0	3	40	7,50
Technical	0	0	5	1	0	0	6	295	2,03
Finance	0	0	0	1	0	0	1	68	1,47
IT	0	0	0	2	1	0	3	54	5,56
Professional Support	0	0	1	5	2	0	8	133	6,02
Support	1	1	4	1	0	0	7	378	1,85
Technical Support	0	4	1	0	0	0	5	155	3,23
TOTALS	**1**	**5**	**11**	**15**	**4**	**0**	**36**	**1276**	**2,82**

**Note: The Total number of Employees in Table 14 excludes the fixed term contract employees.*

Table 15: Reasons for Terminations 2021/22 financial year

REASON	NUMBER
Resignation	26
Dismissal	10
Retirement	36
VSP's	110
Contracts Expired	35
Death	12
TOTAL	**229**

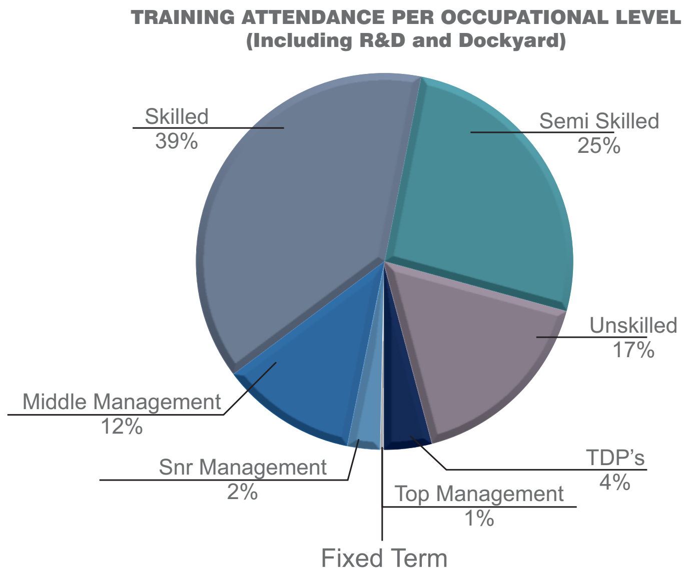
Learning and Development

The learning and development opportunities are intended at ensuring that Armscor has a continued availability of highly skilled, competent and committed employees at all levels in order to achieve its strategic outputs. Development of employees' knowledge, skills and attitudes enhances their performance in current roles while preparing them for future emerging roles.

The rolling out of the learning interventions involves developing internal capacity and infrastructure to focus on building technical, managerial and leadership capability from entry level to senior executive management. The rollout of learning has been done in line with the Blended Learning Approach to ensure maximum participation, flexible and alternative range of learning solutions. This entails more than one delivery method including face-to-face and digital learning.

Training attendance

Figure 13: Actual training per occupational level



At the end of the reporting period, the majority of training was attended by the groups from the skilled, semi-skilled and middle management levels with the skilled groups making up the majority of the training. The main focus of this training was for formal related studies, technical and management and leadership related training.

Armscor Bursary Scheme and Graduate Development Programmes

As part of its social responsibility and its commitment towards the National Skills Development agenda, Armscor is implementing an external bursary scheme and a Talent Development Programme. With the external bursary scheme, Armscor offers bursaries to external students to study towards disciplines in line with the current critical and scarce skills. After completing their studies, the students are appointed in the Talent Development Programme to get workplace experience. These programmes are also intended at ensuring that Armscor attracts young talent into the Corporation.

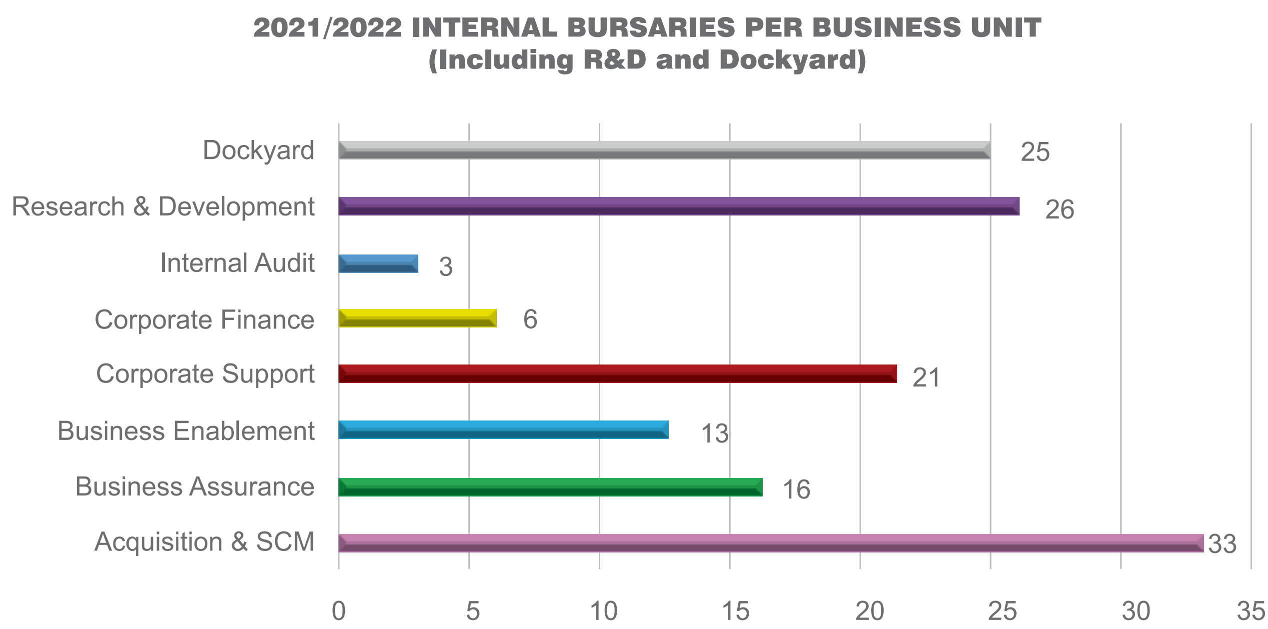
STAFF BURSARIES

As part of its commitment towards staff development, Armscor provides the employees with bursaries to further their studies at undergraduate or postgraduate level.

The fields of study sponsored and the number of bursaries awarded are determined annually with due consideration of changing circumstances, availability of funds, the human capital requirements and qualifications essential for the functioning of Armscor.

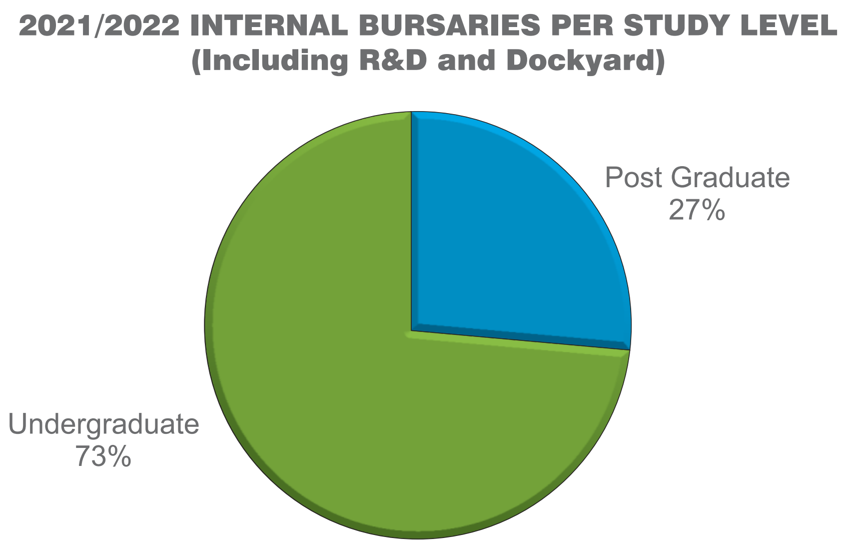
The detailed breakdown of internal bursaries per Business Units, study levels and field of study are reflected in Figure 14, 15 and 16.

Figure 14: Internal Bursaries per Business Unit



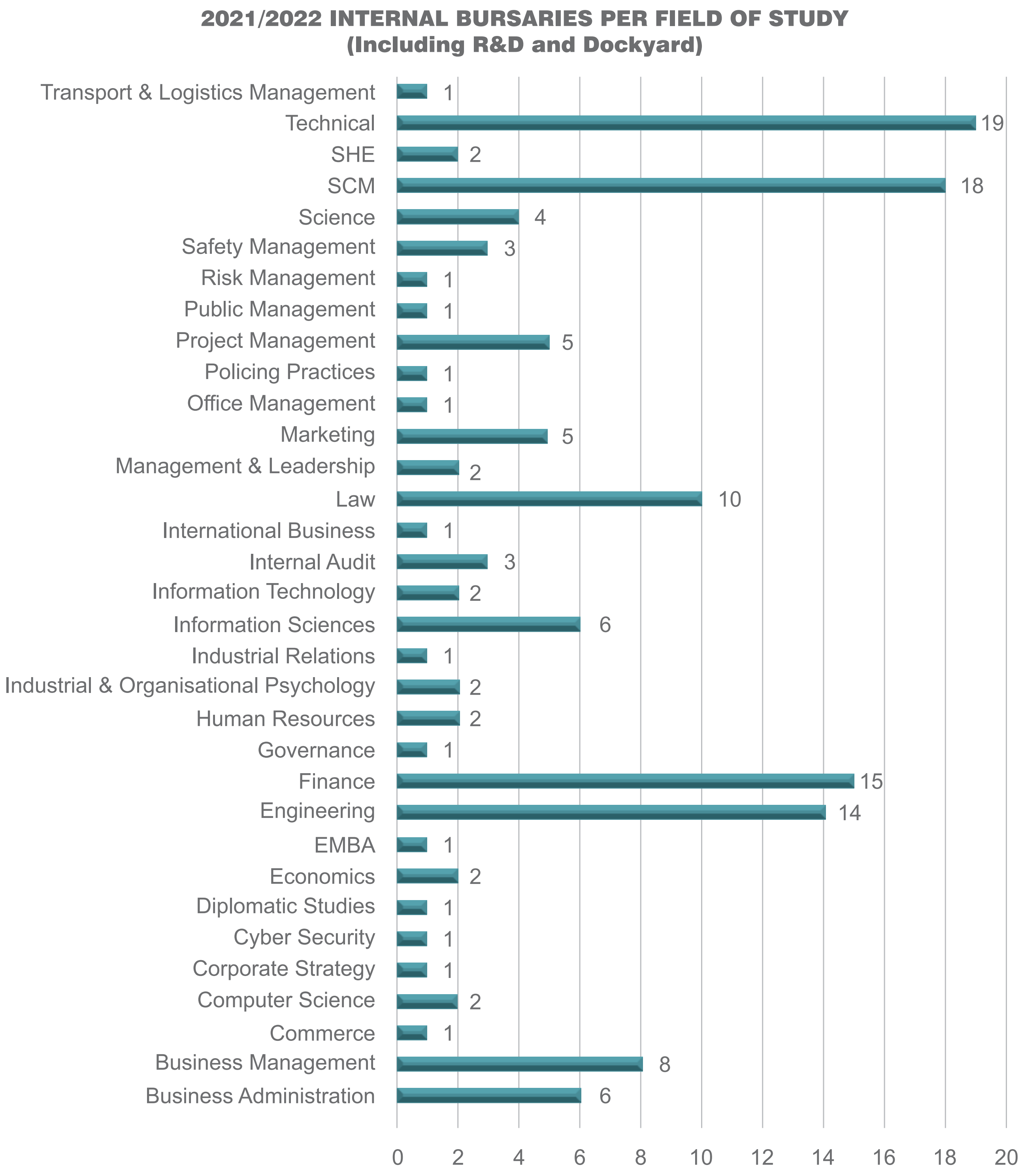
Most of the employees studying are from the Acquisition and SCM Business Unit. This is a good sign that Armscor's core businesses are making use of the learning opportunities.

Figure 15: Internal Bursaries per Study Levels.



A total of 73% of Armscor employees studying with an Armscor Bursary are on undergraduate levels, whereas 27% are on postgraduate studies.

Figure 16: Internal Bursaries per Field of Study 2021/2022 financial year.



Almost a third (27,55%) of the fields of study are made up of SCM and engineering.

External Bursary Scheme

Twenty nine bursary holders are funded for the 2022 academic year in disciplines that are regarded by Armscor as critical and scarce skills. This is to ensure that the Corporation has enough pool of young future recruits. Out of 29, 14 of the students are males and 15 are females.

Figure 17: Field of study

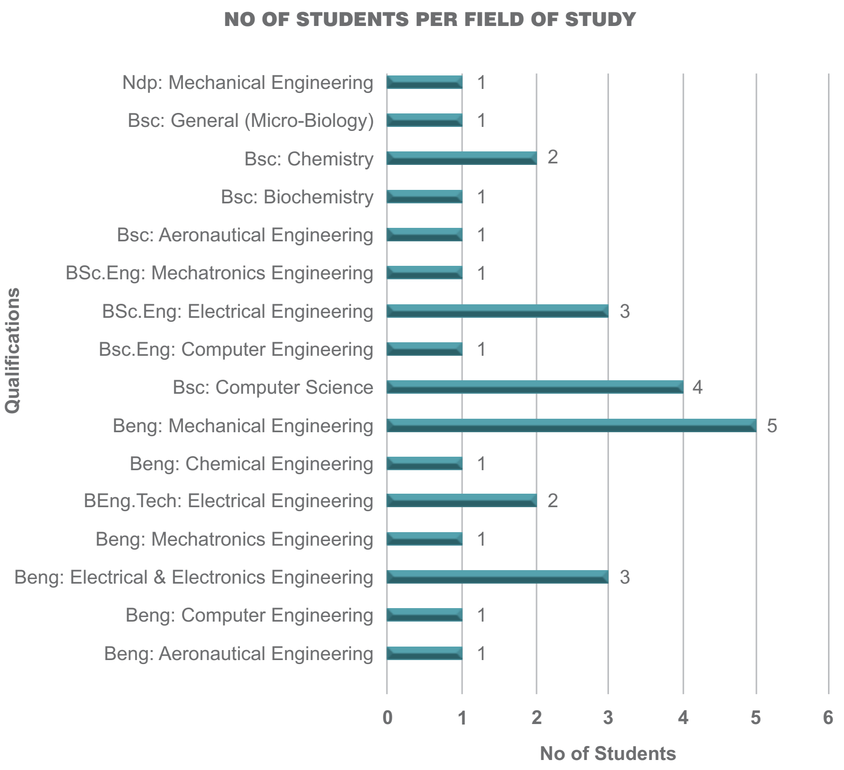
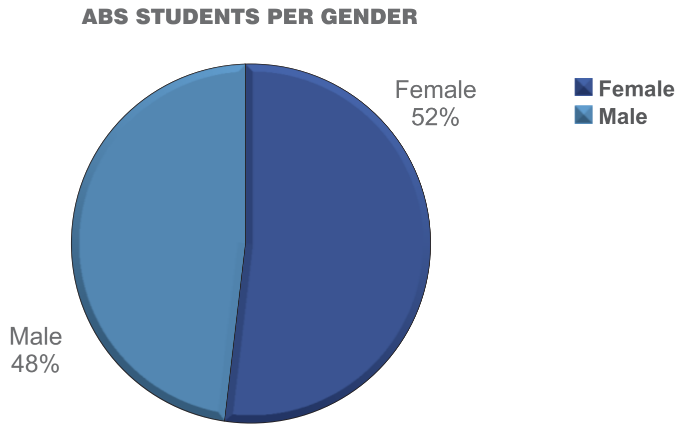


Figure 18: Students per Gender



Talent Development Programme

The Talent Development Programme is also being used as part of the succession planning intervention. The programme aims to develop a pool of readily available talent and technical expertise to meet required skills needs for current and future business strategic outputs. These graduates are recruited from Armscor's bursary pool and are provided with opportunities to work on advanced technologies at Armscor.

At the end of the reporting period, the programme had 31 students that were placed in different Business Units within the Corporation.

Figure 19: TDPs allocation per Division

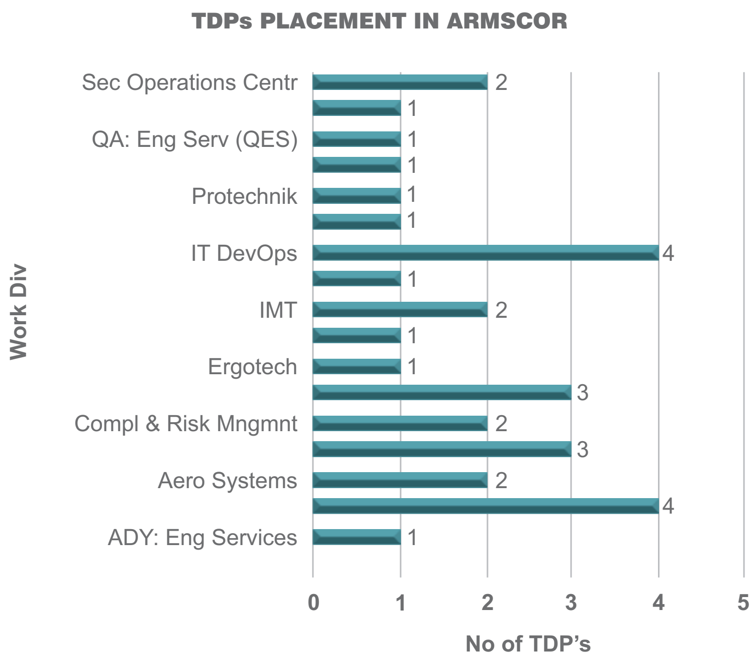
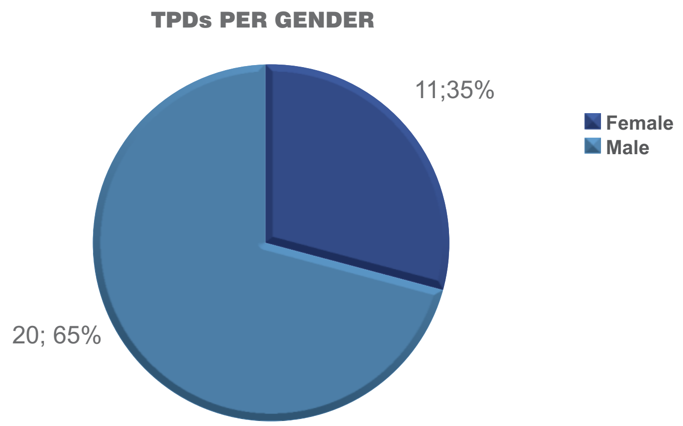


Figure 20: TDPs per Gender



Succession planning: Performance against the strategic outputs for 2021/22 financial year

Succession is the process of ensuring that Armscor has the right people in the right roles at the right time through the identification of the most capable people for the succession as early as possible in their careers and subsequently developing their capabilities. The process entails identification of the successors for key posts, and then planning their career moves and development activities to enable them to be ready for posts as they become vacant.

Armscor's approach therefore is to identify the key skills needed now and going forward in order to identify and develop potential successors to be ready to take up the challenges of these roles within the Corporation.

A strategic output target of 80% compliance to the development plans of successors has been set for the reporting period. The 80% target has been exceeded with a performance score of 83% compliance to the development plans of successors.

Number of key scarce skills roles and mentees as at 31 March 2022

The number of key scarce skill roles and mentees as at 31 March 2022 is reflected Table 16:

Table 16: Scarce skill roles and mentees

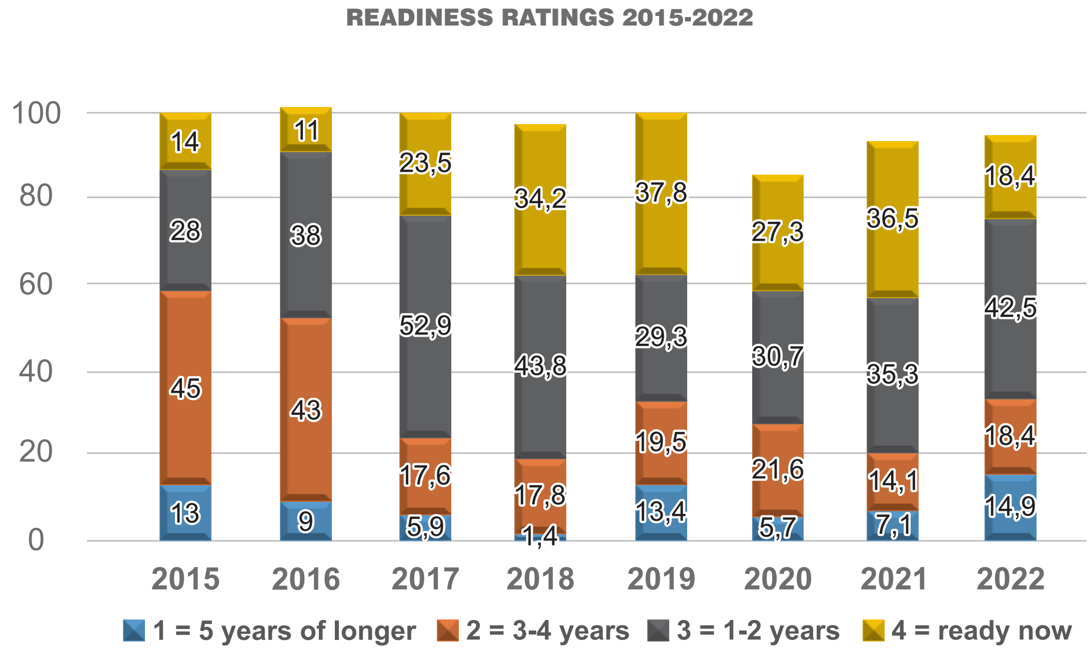
Role Player	NUMBER
Key Scarce skill role	87
Mentees	62

Readiness ratings

Readiness ratings are used to monitor the time period in which a mentee will be ready to fulfil all the requirements of the progression role (scarce skill role).

Readiness ratings are displayed in Figure 21:

Figure 21: Readiness Rating 2015 - 2022



- Mentees who are ready (readiness level 4) increased steadily over the years from 14% (2015) to 37,8% (2019).
- In 2020, 12 mentees were promoted and a number of young high potential mentees have been added to the programme. This influenced the readiness ratings of mentees (27,3%).
- During the reporting period, all key scarce skill roles were revised. This impacted the readiness ratings as 38 new mentees have been added to the list. The development for these new mentees are planned to start in 2022/23 financial year.

SECTION 4
CORPORATE GOVERNANCE

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

CORPORATE GOVERNANCE

Good corporate governance is built on effective and responsible leadership. It is characterised by the ethical values of responsibility, accountability, fairness and transparency. Every aspect of Armscor's business rests on a foundation of ethical values. Good governance is part of Armscor's DNA, and the Corporation strives for the highest standards. A strong governance framework improves decision-making, facilitates access to capital, reduces risk and contributes to adding value. Better corporate governance leads to transparency and better disclosure, thus providing the opportunity to establish relationships with all stakeholders on fair and more productive terms.

Armscor upholds the highest possible corporate governance standards by ensuring adherence to all relevant legislative requirements (Armscor Act, PFMA, Companies Act, etc.). This includes good governance codes, such as King IV while recognising that corporate governance goes beyond a set of frameworks, principles, policies and rules. The Board is committed to maintaining a high standard of corporate governance practices within Armscor.

Governance Framework

Key Legislation

- Armscor Act
- Public Finance Management Act
- Companies Act

Policies and procedures in place

- Defence Sector Charter
- Code of Ethics
- Delegation of Authority
- Policy on Conflict of Interest
- Board and Committees Terms of Reference
- Gift and Hospitality Policy
- Whistleblowing Policy
- Whistleblowing Hotline

Governance principles

- King IV Report on Corporate Governance
- Corporate Governance Development Framework

CORPORATE GOVERNANCE

4.1 DIRECTORS' REPORT

Introduction

This is the Directors' Report for the period 2021 – 2022 and relates to the performance of the Corporation for the reporting period.

Background

This report is therefore presented in terms of the relevant provisions of the Public Finance Management Act, No. 1 of 1999 (PFMA) and the Companies Act, No. 71 of 2008. It provides an overview on the performance of Armscor, measured against performance targets that the Corporation had set itself for the reporting period.

Nature of Business

Armscor's mandate is contained in the Armscor Act. This is briefly 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.

The Corporation must adhere to accepted corporate governance principles, best business practices and Generally Recognised 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 the DOD
- manage technology projects for the DOD
- establish programme 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 a SLA, for commercial matériel, dispose of defence matériel
- establish a compliance administration system with regard to arms control
- support and maintenance of 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 the DOD, even if those capabilities/facilities are not commercially viable.

Armscor may, with the approval of the Minister of Defence and Military Veterans (the Minister), exploit such commercial opportunities as may arise out of the Corporation's duty to acquire defence matériel or to manage technology projects; procure commercial matériel 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 (Act No. 41 of 2002), the Regulation of Foreign Military Assistance Act (Act No. 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act (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 any sovereign 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 reporting period.

Organisational Structure

The organisational structure of the Corporation appears on page 17 of this report.

Communication with the Executive Authority

The Executive Authority for Armscor is the Minister, who represents the Shareholder. Communication with the Executive Authority is channelled primarily through the office of the Chairperson. In addition, there are further engagements between the Minister and the Chief Executive Officer. Regular reporting was undertaken in terms of the Shareholder's Compact, and additional ad hoc reports were also submitted for consideration by the Minister.

CORPORATE GOVERNANCE

4.1 DIRECTORS' REPORT

Directorate

The Directors of the Corporation and their brief Curricula Vitae appear on page 18 of this report.

4.1.1 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 No. 71 of 2008. Furthermore, it is listed as a schedule 2 Public Entity in terms of the PFMA (Act No. 1 of 1999), as amended. It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies Act No. 71 of 2008. Armscor also subscribes to good corporate governance principles contained in the King IV Report on Good Corporate Governance for South Africa 2016, 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 service level agreement (SLA). The SLA is based on the Shareholder Compact which is 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, and 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, is the sole shareholder of the Corporation. The shareholder relationship is managed, amongst others, through the Armscor Act, the PFMA, the Companies Act No. 71 of 2008, the Shareholder Compact and the Corporate Plan. The Shareholder Compact sets out the deliverables agreed between the Corporation and the Minister. 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 the Board of Directors at least once a year. During the reporting period, the Minister did not meet with the Board.

4.1.2 THE BOARD OF DIRECTORS

The Board of Directors has been appointed in terms of Section 6(1) of the Armscor Act and should consists of nine non-executive members and two executive members, namely the Chief Executive Officer and the Chief Financial Officer.

On 22 February 2022, Maj Gen (ret) LC Pepani was disqualified as a Board member of Armscor in accordance with Section 8(a) of the Armscor Act.

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 reporting period, the Board executed its roles in accordance with the Board Charter. Board roles 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 Corporation's 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 objective
- 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
- Ensuring that the shareholder is kept informed of the Corporations performance and any major developments.

4.1.2 THE BOARD OF DIRECTORS

Board meetings

The meetings of the Board of Directors are governed by the Board's Charter, 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 Chairperson.

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. The declaration of interest is handled as stipulated in the Board Charter. During the reporting period, one member declared interest on the matter serving before the Board and was excused during the discussion of the item. 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 the Board 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 reporting period, the Corporation held four Board meetings, and five Special Board meetings as depicted in Table 17 and 18.

Table 17: Board of Directors and Attendance of Meetings

Board of Directors and Attendance of Meetings				
Board Member	**07/07/2021**	**25/08/2021**	**01/12/2021**	**17/03/2022**
Dr PD Dexter (Chairperson)	P	P	P	P
Mr MS Motimele (Deputy Chairperson)	P	P	P	P
Amb JT Ndhlovu	P	P	P	P
Dr RC Lubisi	P	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P
Maj Gen (ret) LC Pepani	P	P	P	D
Ms R Matenche	P	P	P	P
Ms PN Mashinini	P	P	P	P
Mr TM Sukazi	P	A	A	A
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present A – Absent with apology D- Disqualified

Table 18: Special Board of Directors and Attendance of Meetings

Special Board of Directors and Attendance of Meetings					
Board Member	**21/04/2021**	**17/08/2021**	**28/10/2021**	**27/01/2022**	**22/02/2022**
Dr PD Dexter (Chairperson)	P	P	P	P	P
Mr MS Motimele (Deputy Chairperson)	P	A	P	P	P
Amb JT Ndhlovu	A	P	P	P	P
Dr RC Lubisi	A	P	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P	P
Maj Gen (ret) LC Pepani	P	P	P	P	P
Ms R Matenche	A	P	P	P	P
Ms PN Mashinini	P	P	P	P	P
Mr TM Sukazi	A	P	P	P	P
Adv. SP Mbada (CEO)	P	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P	P

Key: P – Present A – Absent with apology

Board Engagements with the Portfolio Committee on Defence and Military Veterans (PCDMV)

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 reporting period 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). Table 19 provides information about the Board Engagements with the PCDMV.

Table 19: Portfolio Committee on Defence and Military Veterans and Attendance of Meetings

Board engagements with Portfolio Committee on Defence and Military Veterans and Attendance of Meetings			
Board Member	**11/05/2021**	**17/11/2021**	**16/02/2022**
Dr PD Dexter (Chairperson)	P	P	P
Mr MS Motimele (Deputy Chairperson)	P	P	A
Amb JT Ndhlovu	P	P	A
Dr RC Lubisi	P	A	A
Ms BF Skweyiya-Gushu	P	P	P
Maj Gen (ret) LC Pepani	P	P	A
Ms R Matenche	P	A	A
Ms PN Mashinini	P	P	P
Mr TM Sukazi	P	A	A
Adv. SP Mbada (CEO)	P	P	P
Mr JG Grobler (CFO)	P	P	P

Key: P – Present A – Absent with apology

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 meetings attendance and preparation. The fees are based on the determination by the Minister of Defence and Military Veterans in consultation with the Minister of Finance.

4.1.3 BOARD COMMITTEES

To promote independent judgement and effective discharge of its duties, the Board of Armscor established five Board Committees appropriate to execute the mandate of Armscor. The Committee's delegation of powers are recorded in the various terms of reference, which are annually reviewed by Committees and approved by the Board. The Committees consider submissions from Management on critical issues affecting the Corporation and report on their work at each Board meeting.

The Chairperson of the Board, as stipulated in the Board Charter, is responsible for ensuring the integrity and effectiveness of the Board and its Committees. As such the Chairperson of the Board may reconstitute Board Committees in order to ensure that the Committees function effectively and efficiently. Board Committee memberships are determined through the applications of the following principles: skills; experience; continuity and demographic representation.

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 Public Finance Management Act No. 29 of 1999, Section 94 of the Companies Act, No. 71 of 2008 and the Armscor Board Charter.

The Committee comprises of a minimum of three (3) independent non-executive directors, as members of the Committee. During the reporting period, Ms R Matenche was appointed as the Chairperson of the Committee effective January 2021.

In terms of principle 12 of King IV report on technology and information governance, the governing body should govern technology and information in a way that supports the Corporation setting and achieving its strategic outputs. This function has been delegated to the Audit and Risk Committee as reflected in their terms of reference. The Committee felt that they do not have adequate expertise, skills and experience on IT governance related matters and would prefer to have an independent member with this expertise as part of the Committee. The Board approved the Committee's request to appoint an independent Committee member with the adequate expertise, skills and experience on IT governance in terms of the Board Charter.

Mr Duke Mathebula was appointed as an independent member of the Audit and Risk Committee with effect from 1 May 2021.

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

- CEO
- CFO
- Company Secretary
- Chief Audit Executive (CAE)
- Executive Manager: Information Communication Technology (ICT)
- Chief Risk Officer or any person performing the risk function
- 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
- Ensuring corporate accountability and managing the associated risk in terms of management, assurance and reporting.

Table 20: Audit and Risk Committee Meetings

Audit and Risk Committee and Attendance of Meetings				
Members	**27/05/2021**	**29/07/2021**	**11/11/2021**	**03/03/2022**
Ms R Matenche (Chairperson)	P	P	P	P
Dr RC Lubisi	P	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P
Mr TM Sukazi	P	A	P	A
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P
Independent Member				
Mr D Mathebula	P	P	P	P

Key: P – Present A – Absent with apology

Table 21: Special Audit and Risk Committee Meetings

Special Audit and Risk Committee and Attendance of Meetings							
Members	**31/05/2021**	**23/08/2021**	**31/08/2021**	**08/09/2021**	**26/10/2021**	**25/01/2022**	**16/03/2022**
Ms R Matenche (Chairperson)	P	P	P	P	P	P	P
Dr RC Lubisi	P	P	P	A	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P	P	P	P
Mr TM Sukazi	P	P	P	A	P	P	P
Adv. SP Mbada (CEO)	P	P	P	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P	P	P	P
Independent Member							
Mr D Mathebula	P	P	P	P	P	P	P

Key: P – Present A – Absent with apology

Technology, Industry Support and Sustainability Support Committee

The Technology, Industry Support and Sustainability Committee consist of a minimum of three (3) non-executive directors and two (2) executive directors (being the CEO and the CFO). Dr RC Lubisi was appointed as the Chairperson of the Committee effective January 2021.

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
- 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.

Table 22: Technology, Industry Support and Sustainability Committee Meetings

Technology, Industry Support and Sustainability Committee and Attendance of Meetings				
Members	**17/05/2021**	**21/07/2021**	**03/11/2021**	**24/02/2022**
Dr RC Lubisi (Chairperson)	P	P	P	P
Mr MS Motimele	P	P	P	P
Amb JT Ndhlovu	P	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present

Acquisition Committee

The Acquisition Committee consists of a minimum of three (3) non-executive directors and two (2) executive directors (being the CEO and the CFO). During the reporting period. Mr TM Sukazi was appointed as the Chairperson of the Committee effective January 2021.

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
- Considering and disposing of acquisition and procurement submissions within the approved limits.

During the reporting period, the Committee had the following scheduled meetings and special meetings:

Table 23: Acquisition Committee Meetings

Acquisition Committee and Attendance of Meetings						
Members	**08/04/2021**	**20/05/2021**	**15/07/2021**	**15 & 28/09/2021**	**28/10/2021**	**10/02/2022**
Mr TM Sukazi (Chairperson)	P	P	P	P	P	A
Mr MS Motimele	P	P	P	P	P	A
Maj Gen (ret) LC Pepani	P	P	P	P	P	P
Ms PN Mashinini	P	P	P	P	P	P
Adv. SP Mbada (CEO)	A	P	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P	P	P

Key: P – Present A – Absent with apology

Table 24: Special Acquisition Committee meetings

Special Acquisition Committee and Attendance of Meetings			
Members	**25/08/2021**	**14/12/2021**	**25/03/2022**
Mr TM Sukazi (Chairperson)	A	P	P
Mr MS Motimele	P	P	A
Maj Gen (ret) LC Pepani	P	P	D
Ms PN Mashinini	P	P	P
Adv. SP Mbada (CEO)	P	P	P
Mr JG Grobler (CFO)	P	P	P

Key: P – Present A – Absent with apology D- Disqualified

Human Resources, Social and Ethics Committee

The Human Resources, Social and Ethics Committee consists of a minimum of three (3) non-executive directors and two (2) executive directors (being the CEO and the CFO). Ms PN Mashinini was appointed as the Chairperson of the Committee effective January 2021.

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 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
- Ensuring that the Corporations ethics management process is managed effectively and efficiently.

Table 25: Human Resources, Social and Ethics Committee meetings

Human Resource, Social and Ethics Committee and Attendance of Meetings				
Members	**19/05/2021**	**12/07/2021**	**04/11/2021**	**23/02/2022**
Ms PN Mashinini	P	P	P	P
Amb JT Ndhlovu	P	P	P	P
Maj Gen (ret) LC Pepani	P	P	P	D
Ms R Matenche	P	P	P	P
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present D- Disqualified

Table 26: Special Human Resources, Social and Ethics Committee meetings

Special Human Resource, Social and Ethics Committee and Attendance of Meetings	
Members	**11/10/2021**
Ms PN Mashinini	P
Amb JT Ndhlovu	P
Maj Gen (ret) LC Pepani	A
Ms R Matenche	P
Adv. SP Mbada (CEO)	A
Mr JG Grobler (CFO)	P

Key: P – Present A – Absent with apology

Military Veterans Committee

The Board Committee on Military Veterans was established by the Board on 19 March 2021, in order to have a coordinated approach of providing services to the Military Veterans. The following members were nominated to represent the Board in this Committee:

- Mr MS Motimele as the Chairperson of the Committee
- Amb. JT Ndhlovu
- Maj Gen (ret) LC Pepani.

The Committee consists of a minimum of three (3) non-executive directors and two (2) executive directors (being the CEO and the CFO). 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 implementation, monitoring and review of the Corporation's implementation of the Broad-Based Black Economic Empowerment Defence Sector Code
- Overseeing and providing direction to Management on behalf of the Board to ensure that the Corporation implements the Defence Sector Code as it relates to Military Veterans fairly, effectively and efficiently
- Monitoring the Corporation's activities relating to its social impact on Military Veterans taking into consideration all relevant legislation, legal requirements and codes of best practice
- Engaging with the Defence Sector Charter Council established in terms of the Defence Sector Code on the empowerment of Military Veterans through the Defence Industry Skills Development Fund

During the reporting period, the Committee held four (4) Committee meetings as depicted in Table 27:

Table 27: Military Veterans Committee meetings

Military Veterans Committee and Attendance of Meetings				
Members	**25/05/2021**	**12/08/2021**	**27/10/2021**	**25/02/2022**
Mr MS Motimele (Chairperson)	P	P	P	P
Amb JT Ndhlovu	P	P	P	P
Maj Gen (ret) LC Pepani	P	P	P	D
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present D- Disqualified

4.1.4 FINANCIAL REPORTING

The Directors are required by the Companies Act No. 71 of 2008 to produce financial statements, which fairly represent the state of affairs of the Corporation as at the end of the financial year. This includes the profit and loss for that financial year, in conformity with South African Generally Recognised Accounting Practice (SA GRAP) and the Companies Act No. 71 of 2008.

The Financial Statements set out in this report have been prepared by Management in accordance with SA GRAP and the Companies Act No. 71 of 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 represent the financial position of the Corporation as at 31 March 2022; 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 2021 to 31 March 2022 and is satisfied that adequate resources exist to sustain the Corporation's 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 reporting period.

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.

4.1.5 LITIGATION

In relation to special defence acquisition done for the Department of Defence, the following were instituted against Armscor.

Beverly Securities

The claim instituted by Beverly Securities Ltd and Beverly Securities Inc in the Civil Court of Lisbon is for commission in the amount of €192 million against Armscor for services allegedly rendered by Plaintiffs. The matter is related to the acquisition of 50 Oryx helicopters in kit form during the 1980s. The existence of an agency agreement wherein Armscor appointed Plaintiffs to assist as intermediary in establishing a clandestine Portuguese channel is in dispute. The preliminary work in the defence of the matter has been done. The matter is considered ripe for hearing following a long delay as a result of the COVID-19 pandemic, court date is awaited.

Quaker Peace Centre

The Plaintiff in this matter is the Quaker Peace Centre, a non-profit and public benefit organisation. The Plaintiff claims that it sues in its own interest and in the public interest as contemplated in the Constitution of the Republic of South Africa, 1996.

The matter involves the procurement agreement entered into with BAE in respect of the Hawk and Gripen aircrafts. The relief sought by the Plaintiff is an order directing the Defendants i.e. Government of the Republic of South Africa and Armscor respectively to take steps that may be necessary to impugn the validity of the Procurement Agreement and the Loan Agreement or alternatively to declare the Procurement Agreement and the Loan Agreement invalid.

Alternatively, an order is sought directing the Defendants to tender the return of the aircraft acquired to the Third Defendant (Seller) against repayment of all amounts paid to the Third Defendant. Armscor and the relevant Government departments are defending the matter and have filed pleas in the defence of the matter. The Plaintiff has not proceeded to apply for a court date.

Patria Land OY

In this matter, the First and Second Defendants is Denel and Armscor respectively. The Plaintiff claim that Denel and/or Armscor did not accept work delivered in accordance with an agreement entered into between Denel and the Plaintiff and furthermore demand payment of a number of invoices issued to Denel. The Plaintiff further claim that Armscor and Denel have entered into a stipulatio alteri for the benefit of Patria in terms of which Armscor would be liable for the invoices issued by Patria to Denel.

Armscor is defending the matter and filed an Exception. Following the Exception, the Plaintiff initially requested Armscor's indulgence in delaying the proceedings instituted in the High Court. Armscor notified the Plaintiff that it is not in favour of any delay in the proceedings and further requested the Plaintiff to withdraw the matter against Armscor and to tender the necessary costs.

The Plaintiff proceeded to file the amended particulars of claim. In the amended particulars of claim, the Plaintiff has included an additional claim in respect of goods packages that were not included in the initial claim. The claim amounted to Euro 17 562 575,82 plus ZAR 258 168,19. Armscor responded and filed its plea. Armscor has paid all invoices that are payable in terms of the conditions of the contract. The Plaintiff has not approached the court for a trial date.

Steradian Energy (PTY) Ltd

The Plaintiff in this matter is Steradian Energy (PTY) Ltd, who has previously submitted a bid in respect of the acquisition of new Mobile and Tactical Power Generation Product System.

Steradian claims that their tender was accepted by Armscor by a written or partially written oral contract. As a result of the cancellation of the tender, Steradian claims that it suffered damages amounting to approximately R205 200 000.00.

Armscor is defending the matter. Armscor has filed a Notice of Exception. The Plaintiff has not responded and did not file a reply.

In relation to operational transactions executed by Armscor, the following matter was instituted against Armscor.

Frontline Occupational Safety Consulting and Services CC

An application was filed by Frontline in the High Court, Western Cape Division following the award of a Request for Bid, for the delivery of Industrial Clinic Services at the Armscor Dockyard.

The relief sought in the application is to declare Armscor's decision to award the tender to the successful bidder, unlawful and invalid and that same be reviewed and set aside; and to award the bid to the applicant.

Armscor has filed its answering affidavit. The matter was settled following a request from the applicant that the parties settle the matter with each party responsible for its own legal costs.

4.2 AUDIT AND RISK COMMITTEE

REPORT OF THE 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, section, 51(1)(a)(ii) and 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 2022.

1. GOVERNANCE OF RISK

1.1 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:

1.1.1. 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.

1.1.2. ensured that the Armscor Group has and maintains effective, efficient and transparent systems of financial; risk management, governance and internal control.

1.1.3. 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.

1.1.4. ensured corporate accountability and governance and the associated risk in terms of management, assurance and reporting.

1.2 Financial Year 2021/2022 continued to be a challenging year, though the level of risk of coronavirus (COVID-19 pandemic) subsided in the year, the risk was still significant to be considered for risk management and oversight by the Committee. The Committee provided oversight over the COVID-19 pandemic related risks. The Committee provided oversight over the approach adopted by management in dealing with the risks of the said virus.

1.3 The Committee ensured the establishment of the process towards the monitoring of the Combined Assurance for the coordinated assurance efforts in mitigating the Corporation's risks by the existing assurance providers within the Corporation.

2. INTERNAL CONTROL ENVIRONMENT

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

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

The Audit and Risk 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
- Significant legislative or regulatory issues impacting the Corporation are recognised and addressed appropriately.

3. ANNUAL FINANCIAL STATEMENTS

During the financial year 2021/22 Armscor maintained the adherence to the requirements of the Standards of Generally Recognised Accounting Practice (GRAP). The Audit and Risk Committee has evaluated the Annual Financial Statements of the Armscor Group for the year ended 31 March 2022 and considered that it complies, in all material respects, with the requirements of the Public Finance Management Act (Act No. 1 of 1999), as amended, as well as the Standards of Generally Recognised Accounting Practice (GRAP). This compliance comes in after the adjustments on the financial statements relating to material misstatements of the commitments disclosure.

Furthermore, the Committee has reviewed the results of the external audit on the Annual Financial Statements and accordingly concurs with the opinion expressed therein. The Committee has also noted that, an unqualified audit opinion has been issued by the Auditor-General for the year under review and the Committee recommended the adoption of this Annual Report to the Board of Directors.

In this regard the Audit and Risk Committee would like to express its appreciation to management and Internal Audit for their commitment in strengthening the internal control environment of Armscor.

4. REVIEW AUDIT REPORT AND MANAGEMENT REPORT

The Committee noted the outcome of the external audit on the inadequate oversight responsibility exercised by management over financial reporting. The Committee agrees with the external audit that the oversight was due to, insufficient reviews by management and the limitation posed by the use of legacy systems for the compilation of the financial statements. Additionally, the Committee noted that the reported lack of monitoring of controls over compliance with laws and regulations were not effective to prevent non-compliance regarding the prevention of repeat irregular expenditure.

The Committee has accepted the undertaking by management to address the issues of legacy systems that precludes management in the provision of the effective oversight over financial reporting. The Committee will continue to monitor the eradication of the legacy systems and exercising the oversight responsibility required.

The Committee noted and understood the reasons for the emphasis of matter and the impact thereof on the financial statements, the entity's operations and assessed the adequacy of planned action by management to rectify the emphasis of matter.

5. QUARTERLY REPORTING

The 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 changes in 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.

6. INTERNAL AUDIT

The Board of Directors delegated oversight of the Internal Audit to the Audit and Risk Committee and approved the position of the Chief Audit Executive (CAE) to lead and manage Internal Audit and has ensured that the CAE position is set up to function independently from management.

The Audit and Risk Committee has provided the oversight responsibility over the Internal Audit and has:

- Reviewed and approved the Internal Audit Charter 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 (ISPPIA) and the approved Internal Audit Charter.
- Continually ensured the independence of the CAE and Internal Audit by ensuring that the CAE reports functionally to the Committee and administratively to the CEO.
- Reviewed the independence of the CAE and the Internal Audit to ensure that the CAE and Internal Audit is independent and free of influence by management and carried his assurance duties objectively.
- Empowered the CAE and Internal Audit function to have necessary authority and unrestricted access to information and records in order for Internal Audit to execute its work without restrictions and impairment in its independence and objectivity.
- Reviewed and approved the risk-based Internal Audit Plan for the financial year 2021/22 and ensured that Internal Audit carried its work in accordance with the approved plan.
- Provided oversight on the work of Internal Audit and assessed Internal Audit reports on a quarterly basis and directed that matters of material risks reported by, Internal Audit are addressed by management.
- Monitored the implementation of the recommendations of the Quality Assurance Review via the Quality Assurance and Improvement Program (QAIP) by Internal Audit.

7. EXTERNAL AUDIT

The Audit and Risk Committee has an oversight responsibility over the external auditors. 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.

8. FINANCE FUNCTION

The Committee has considered and satisfied itself with the finance function for appropriateness, expertise and adequacy of its structure. The finance function's resources to deliver the financial mandate inherent to the finance function could be enhance through the eradication of legacy systems.

9. COMBINED ASSURANCE

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

10. SIGNATURES

MS R MATENCHE
CHAIRPERSON: AUDIT AND RISK COMMITTEE

SECTION 5
ANNUAL FINANCIAL REPORT

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

INDEX

Report of the auditor-general to Parliament on the Armaments Corporation of South Africa SOC Limited

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Armaments Corporation of South Africa SOC Ltd and its subsidiaries (the group) set out on pages 115 to 182, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies 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 and separate financial statements section of my report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 48 to the financial statements, the corresponding figures for 31 March 2021 were restated as a result of errors in the financial statements of the entity at, and for the year ended, 31 March 2022.

Other matter

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

Unaudited supplementary schedules

9. The supplementary information set out on pages 113 to 114 as well as on page 183 does not form part of the financial statements and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting authority for the financial statements

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

11. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

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

12. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 and separate financial statements.

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

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

15. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

16. 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 objective presented in the entity's annual performance report for the year ended 31 March 2022:

Objective	Pages in the annual performance report
Goal 1: category 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition	28-29

17. I performed procedures to determine whether the reported performance information 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.

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

Report on the audit of compliance with legislation

Introduction and scope

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

20. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatement of the commitments disclosure identified by the auditors in the submitted financial statements was corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

22. Effective and appropriate steps were not taken to prevent irregular expenditure of R11 478 000 as disclosed in note 42 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure resulted from a contract extended above the limit allowed and single source procurement done without obtaining prior approval from the National Treasury.

Other information

23. 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 committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate 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.

24. 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 on it.

25. 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 and separate 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.

26. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

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

28. Senior management did not exercise sufficient oversight responsibility of financial reporting. This was mainly a result of insufficient reviews by management combined with system-imposed limitations linked to the legacy systems used to compile the financial statements. This resulted in material adjustments that had an impact on non-compliance. Additionally, monitoring controls over compliance with laws and regulations were not effective in preventing non-compliance with regard to repeat irregular expenditure.

Other reports

29. I draw attention to the following engagement conducted by various parties which had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

30. The South African Police service is investigating allegations of procurement irregularities at the Dockyard division. These investigations were still in progress at the date of this report.

Auditor-General

Pretoria

31 July 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – 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 and separate 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 separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 relating to events or conditions that may cast significant doubt on the ability of Armscor and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my 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 operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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 provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

GROUP: FIVE YEAR REVIEW

AS AT 31 MARCH 2022 (UNAUDITED)

STATEMENT OF FINANCIAL POSITION NET ASSETS	2022 R'000	2021 R'000	2020 (Restated) R'000	2019 R'000	2018 R'000
Property, plant and equipment	1 225 755	1 690 390	1 731 296	1 874 788	1 459 078
Investment property	25 000	50 730	47 270	48 400	45 500
Intangible assets	28 293	21 677	18 639	17 577	14 608
Heritage assets	12 746	13 829	13 829	13 829	13 259
Other non-current assets	-	-	-	1 540	-
Other non-current liabilities	(18 764)	(27 204)	(65 161)	(27 197)	(28 856)
Net current assets	373 894	593 685	768 235	182 300	425 887
Financial instruments	1 236 517	883 226	556 973	877 634	368 179
Post-retirement employee benefit obligation	(353 979)	(304 173)	(273 189)	(226 164)	(237 390)
	2 529 462	**2 922 160**	**2 797 892**	**2 762 707**	**2 060 265**
NET ASSETS	**2 529 462**	**2 922 160**	**2 797 892**	**2 762 707**	**2 060 265**

STATEMENT OF FINANCIAL PERFORMANCE REVENUE					
Sale of goods and services	274 365	301 812	389 585	381 112	473 944
Government grants (including deferred income recognised)	1 256 832	1 113 324	1 175 762	1 134 103	1 057 675
Interest income	86 188	89 169	104 677	78 642	71 601
Rental income	62 722	71 421	68 045	143 574	25 989
Donations received	-	-	-	441	136
Other income	23 702	15 091	21 996	16 255	31 407
	1 703 809	**1 590 817**	**1 760 065**	**1 754 127**	**1 660 752**
TOTAL SURPLUS/(DEFICIT) FOR THE YEAR	**12 520**	**124 267**	**179 545**	**235 311**	**(10 086)**

VALUE-ADDED STATEMENTS

AS AT 31 MARCH 2022 (UNAUDITED)

	MARCH 2022 R'000	%	MARCH 2021 R'000	%
Revenue	1 703 809		1 590 817	
Sales of goods and services	274 365		301 812	
Government grant (including deferred income recognised)	1 256 832		1 113 324	
Rental income	62 722		71 421	
Other income	21 126		13 087	
Interest received	86 188		89 169	
Dividends received	2 576		2 004	
Donations	-		-	
Less: Paid to suppliers for materials and services	-353 973		-227 676	
TOTAL VALUE ADDED	**1 349 836**	100%	**1 363 141**	100%
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	1 200 154	89%	1 123 375	82%
To lenders of capital as interest (Remember intergroup int.)	-		-	
To governments as taxation (see below)	41 055	3%	21 340	2%
TOTAL VALUE ADDED DISTRIBUTED	1 241 209		1 144 715	
Portion of value added reinvested to sustain and expand the business [Surplus/(deficit) plus depreciation]	108 627	8%	218 426	16%
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	**1 349 836**	100%	**1 363 141**	100%
TAXATION				
Paid in taxes to governments	41 055		21 340	
Income tax paid	27 026		5 426	
Rates and taxes to local authorities (note 1)	14 029		15 913	
Collected on behalf of, and paid over to government	377 835		477 487	
■ Employees taxation deducted from remuneration paid	257 238		279 980	
■ Unemployment Insurance Fund	2 879		2 713	
■ Net value added taxation (VAT)	117 718		194 794	

Note1

UIF	2 878 828	2 713 201
Municipal rates	11 150 298	13 200 189
	14 029 126	15 913 390

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

	Note(s)	2022 '000	2021 '000
Assets			
Current Assets			
Inventories	3	14,160	13,989
Current tax receivable	4	-	63
Receivables from exchange transactions	5	231,526	100,900
Receivables from non-exchange transactions	6	542	1,409
VAT receivable		3,430	-
Cash and cash equivalents	7	465,663	812,656
		715,321	**929,017**
Non-Current Assets			
Investment property	8	25,000	50,730
Property, plant and equipment	11	1,225,755	1,690,390
Intangible assets	12	28,293	21,677
Heritage assets	13	12,746	13,829
Investment in joint ventures	14	-	-
Financial Instruments	15	1,236,517	883,226
		2,528,311	**2,659,852**
Total Assets		**3,243,632**	**3,588,869**
Liabilities			
Current Liabilities			
Current tax payable	4	9	-
Payables from exchange transactions	16	145,196	117,274
Payable from non-exchange transactions	17	47,242	51,072
Employee benefit obligation	20	10,838	-
Deferred income	18	47,894	64,818
Provisions	19	90,248	91,852
VAT payable		-	10,316
		341,427	**335,332**
Non-Current Liabilities			
Employee benefit obligation	20	353,979	304,173
Deferred income	18	11,716	19,851
Deferred tax	21	7,048	7,353
		372,743	**331,377**
Total Liabilities		**714,170**	**666,709**
Net Assets		**2,529,462**	**2,922,160**
Share capital / contributed capital	22	75,000	75,000
Reserves			
Revaluation reserve	23	1,241,540	1,674,637
Other non-distributable reserves	24	400,025	439,535
Accumulated surplus		812,897	732,988
Total Net Assets		**2,529,462**	**2,922,160**

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2022

	Note(s)	2022 '000	2021 '000
Revenue			
Revenue from exchange transactions			
Sale of goods		62,021	31,240
Rendering of services		212,344	270,572
Deferred income recognised		19,492	37,545
Rental income		62,722	71,421
Other income		21,126	13,087
Interest received	26	86,188	89,169
Dividends received	26	2,576	2,004
Total revenue from exchange transactions		**466,469**	**515,038**
Revenue from non-exchange transactions			
Transfer revenue			
Government grant	27	1,237,340	1,075,779
Total revenue	25	**1,703,809**	**1,590,817**
Expenditure			
Employee related costs	28	(1,200,154)	(1,123,375)
Depreciation and amortisation		(96,107)	(94,159)
Finance costs		(34)	-
Lease rentals on operating leases	29	(2,204)	(2,091)
Impairment losses reversed	30	328	29,032
Cost of sales	31	(127,075)	(114,360)
General expenses	32	(241,413)	(189,239)
Total expenditure		**(1,666,659)**	**(1,494,192)**
Operating surplus		**37,150**	**96,625**
Gain on disposal of assets and liabilities		6,605	1,202
Profit on foreign exchange transactions		18,389	197
Fair value adjustments	33	(46,877)	31,787
Inventories losses/write-downs		(277)	-
Surplus before taxation		**14,990**	**129,811**
Taxation	35	2,470	5,544
Surplus for the year		**12,520**	**124,267**

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2022

	Share capital / contributed capital '000	Revaluation reserve '000	Other NDR '000	Total reserves '000	Accumulated surplus '000	Total net assets '000
Balance at 01 April 2020	**75,000**	**1,702,618**	**423,652**	**2,126,270**	**596,623**	**2,797,893**
Changes in net assets						
Surplus for the year	-	-	-	-	124,267	124,267
Transfer from/(to) surplus/deficit	-	(27,981)	15,883	(12,098)	12,098	-
Total changes	-	(27,981)	15,883	(12,098)	136,365	124,267
Balance at 01 April 2021	**75,000**	**1,674,637**	**439,535**	**2,114,172**	**732,988**	**2,922,160**
Changes in net assets						
Revaluation loss	-	(405,218)	-	(405,218)	-	(405,218)
Net income/(losses) recognised directly in net assets	-	(405,218)	-	(405,218)	-	(405,218)
Surplus for the year	-	-	-	-	12,520	12,520
Total recognised income and expenses for the year	-	(405,218)	-	(405,218)	12,520	(392,698)
Transfer from/(to) surplus/deficit	-	(27,879)	(39,510)	(67,389)	67,389	-
Total changes	-	(433,097)	(39,510)	(472,607)	79,909	(392,698)
Balance at 31 March 2022	**75,000**	**1,241,540**	**400,025**	**1,641,565**	**812,897**	**2,529,462**
Note(s)	22	23	24			

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

	Note(s)	2022 '000	2021 '000
Cash flows from operating activities			
Receipts			
Sale of goods and services		232,283	541,113
Grants received		1,237,340	1,075,779
Interest income		55,994	98,079
Other receipts		21,126	13,087
		1,546,743	1,728,058
Payments			
Employees costs		(1,204,267)	(1,193,209)
Suppliers		(279,284)	(230,664)
Finance costs		(34)	-
Taxes on surpluses		(2,703)	(5,427)
		(1,486,288)	(1,429,300)
Net cash flows from operating activities	36	**60,455**	**298,758**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(58,348)	(51,183)
Proceeds from sale of property, plant and equipment	11	138	-
Purchase of intangible assets	12	(9,545)	-
Capitalised development costs	12	-	(5,232)
Increase in investments		(342,269)	(296,622)
Dividends received		2,576	2,004
Net cash flows utilised for investing activities		**(407,448)**	**(351,033)**
Cash flows from financing activities			
Net cash flows from financing activities		-	-
Net decrease in cash and cash equivalents		**(346,993)**	**(52,275)**
Cash and cash equivalents at the beginning of the year		812,656	864,930
Cash and cash equivalents at the end of the year	7	**465,663**	**812,656**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2022

Budget on Accrual Basis

	Approved budget '000	Adjustments '000	Final Budget '000	Actual amounts on comparable basis '000	Difference between final budget and actual '000	Difference between final budget and actual %	Reference
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Sale of goods	13,801	-	**13,801**	62,021	**48,220**	**349 %**	1.1
Rendering of services	454,851	-	**454,851**	212,344	**(242,507)**	**(53)%**	1.2
Deferred income	9,971	-	**9,971**	19,492	**9,521**	**95 %**	1.3
Rental income	39,136	-	**39,136**	62,722	**23,586**	**60 %**	1.4
Other income	24,580	-	**24,580**	21,126	**(3,454)**	**(14)%**	1.5
Interest received	51,964	-	**51,964**	86,188	**34,224**	**66 %**	1.6
Dividends received	-	-	**-**	2,576	**2,576**	**100 %**	1.7
Total revenue from exchange transactions	**594,303**	**-**	**594,303**	**466,469**	**(127,834)**	**(22)%**	
Revenue from non-exchange transactions							
Transfer revenue							
Government grants & subsidies	1,237,314	-	**1,237,314**	1,237,340	**26**	**- %**	
Total revenue	**1,831,617**	**-**	**1,831,617**	**1,703,809**	**(127,808)**	**(7)%**	1
Expenditure							
Personnel	(1,126,984)	-	**(1,126,984)**	(1,200,154)	**(73,170)**	**6 %**	
Depreciation and amortisation	(99,984)	-	**(99,984)**	(96,107)	**3,877**	**(4)%**	
Finance costs	-	-	**-**	(34)	**(34)**	**100 %**	3.1
Lease rentals on operating leases	(3,762)	-	**(3,762)**	(2,204)	**1,558**	**(41)%**	2.1
Debt impairment	(41)	-	**(41)**	328	**369**	**(902)%**	2.2
Cost of sales	(127,264)	-	**(127,264)**	(127,075)	**189**	**- %**	
General expenses	(472,001)	-	**(472,001)**	(241,413)	**230,588**	**(49)%**	2.3
Total expenditure	**(1,830,036)**	**-**	**(1,830,036)**	**(1,666,659)**	**163,377**	**(9)%**	2

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2022

Budget on Accrual Basis

	Approved budget '000	Adjustments '000	Final Budget '000	Actual amounts on comparable basis '000	Difference between final budget and actual '000	Difference between final budget and actual %	Reference
Operating surplus	**1,581**	-	**1,581**	**37,150**	**35,569**	**2,249 %**	
Gain on disposal of assets and liabilities	-	-	-	6,605	**6,605**	**100 %**	3.1
Gain on foreign exchange transactions	1,498	-	**1,498**	18,389	**16,891**	**1,128 %**	3.2
Fair value adjustments	-	-	-	(46,877)	**(46,877)**	**100 %**	3.1
Inventories losses/write-downs	-	-	-	(277)	**(277)**	**100 %**	3.1
	1,498	-	**1,498**	**(22,160)**	**(23,658)**	**(1,579)%**	
Surplus before taxation	**3,079**	-	**3,079**	**14,990**	**11,911**	**387 %**	
Taxation	-	-	-	2,470	**2,470**	**100 %**	4.1
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**3,079**	-	**3,079**	**12,520**	**9,441**	**306 %**	

The budget represented above is the approved final budget that has been prepared on the accrual basis and is classified and presented based on the nature of the expenses.

The following segments are reported on the above budget; Armscor Corporate, Research & Development and Dockyard.

Variances above 10% are explained below:

1. Total revenue

The reasons for the variances are as follows:

1.1 Lower sales were budgeted for after taking COVID-19 pandemic implications into account.
1.2 Services rendered were impacted by the reduction in technology funding and Covid 19 restrictions.
1.3 More deferred income utilised towards assets in the currently year than was budgeted for.
1.4 Rental income was higher as the new lease rates for the Armscor Head Office building are higher than those used for budgeting purposes.
1.5 Commercial income from the revenue generating initiatives was lower than planned due to suppressed economic activitiy as a result of COVID-19 pandemic.
1.6 Higher interest income as a result of higher interest rates in the market, together with more capital to invest as planned capital projects occurred later than planned.
1.7 Dividend received relate to the Armscor Medical Benefit Fund, which is not included in the operational budget of Armscor.

2. Total operating expenditure

The reasons for the variances are as follows:

2.1 Intracompany lease rental transactions are eliminated for statutory reporting purposes.
2.2 Armscor aims to collect all debts due to the entity and thus minimal debt provision is allowed for in the budget. The variance indicates more provision raised for debts considered doubtful.
2.3 General expenses were lower due to continued cost containment measures in place to mitigate against reducing revenue. Savings were mainly realised from subsistence and travel, consulting and professional services, and printing & stationery costs.

3. Other comprehensive surplus/deficit

3.1 These items cannot be predetermined and therefore were not budgeted for.
3.2 The difference are due to actual exchange rate and actual sales from the applicable divisions were different from the anticipated budget.

4. Taxation

4.1 The Armscor Medical Benefit Fund is taxed at 45% (2021: 45%) for the year and is not included in the operational budget. Armscor is exempted from income tax in terms of Section 10(1)(t)(v) of the Income Tax Act no.58, as amended.

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act No. 1 of 1999) and the Companies Act of South Africa (Act No. 71 of 2008). The financial statements comply with all Standards of GRAP, there are no deviations or departures from the Standards of GRAP.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, 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 thousand unless otherwise indicated.

Expenditure in the statement of financial performance is classified and presented based on the nature of expenses, as this provides reliable and more relevant information of the group.

Mandate

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 Department of Defence (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 Standards of Generally Recognised Accounting Practices within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Financial policy

Activities are financed as follows:

a) Armscor's operating funds
Armscor's operating funds which are appropriated by Parliament and obtained via the defence budget, together with the 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 as well as 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 Going concern assumption

These annual financial statements have been prepared on the basis that the entity will continue to operate as a going concern for the foreseeable future.

1.4 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the entity presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

The revenue and expenses of a controlled entity are included in the consolidated financial statements from the transfer date or acquisition date as defined in the Standards of GRAP. For details of the controlled entities consolidated in the financial statements refer to note 39.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date, except for the joint venture which has a February year end.

Adjustments are made when necessary to the annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Jointly controlled entities

Investments in jointly controlled entities are proportionately consolidated from the date on which the entity has the power to exercise joint control, up to the date on which the power to exercise joint control ceases.

The entity's share of assets, liabilities, revenue, expenses and cash flows of jointly controlled entities are combined on a line by line basis with similar items in the consolidated annual financial statements OR The entity include separate line items for its share of the assets, liabilities, revenue and expenses of the jointly controlled entity in its consolidated annual financial statements.

The entity's proportionate share of inter-entity balances and transactions, and resulting surpluses and deficits between the entity and jointly controlled entities are eliminated on consolidation.

An interest in a jointly controlled entity is accounted for using the equity method. Under the equity method, interests in jointly controlled entities are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the entity's share of net assets of the jointly entity, less any impairment losses. Surpluses and deficits on transactions between the entity and a joint venture are eliminated to the extent of the entity's interest therein.

1.5 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual 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 annual financial statements. Significant judgements include:

a) Trade receivables / Held to maturity investments and/or loans and receivables

The entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

On receivables an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Significant judgements and sources of estimation uncertainty (CONTINUED)

b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using a variety of techniques.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

c) Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact on estimations and then require a material adjustment to the carrying value of goodwill and tangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date.

d) Provisions

Provisions were raised and management determined the best estimate of future events, based on the information available.
Additional disclosure of these estimates of provisions are included in note 19.

e) Employee benefits

The present value of the employee benefit obligation depends on a number of factors that are determined on an actuarial basis and management's best estimate using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of employee benefit obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employee benefit obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related employee benefit liability. If there is no market in corporate bonds, the yields from the zero-coupon government bond yield curve of appropriate term is used.

Other key assumptions for employee benefit obligations are based on current market conditions. Additional information is disclosed in note 20.

f) Effective interest rate

The entity used the prime interest rate to discount future cash flows, taking into account the best estimate of future events, based on the information available.

1.6 Investment property

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

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

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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.

1.6 Investment property (CONTINUED)

An investment property shall be derecognised on disposal (including disposal through a non-exchange transaction) or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Fair value

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

The fair value of investment property reflects market conditions at the reporting date.

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

The entity separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 8).

1.7 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 or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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.

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.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised directly to revaluation surplus in net assets. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is recognised in surplus or deficit to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in surplus or deficit reduces the amount accumulated in the revaluation surplus in net assets.

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.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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 to their estimated residual value.

1.7 Property, plant and equipment (CONTINUED)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	3 - 70 years
Plant and machinery	Straight line	5 - 15 years
Furniture, fixtures and computers	Straight line	2 - 20 years
Motor vehicles and vessels	Straight line	5 - 15 years

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit 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.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.8 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

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 or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. The amortisation charge for each period is recognised in surplus or deficit.

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 financial performance when the asset is derecognised.

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

1.8 Intangible assets (CONTINUED)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Patents, trademarks and other rights	Straight line	10 - 15 years
Computer software	Straight line	2 - 8 years

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

The entity's intangible assets all have finite lives.

1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The entity separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 13).

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

Heritage assets are initially measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

The entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Investment in joint ventures

A joint venture is a binding arrangement whereby the entity and other parties are committed to undertake an activity that is subject to joint control, that is the agreed sharing of control over an activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

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

Surpluses or deficits resulting from contributions or sale of assets to joint ventures are only recognised to the extent of other venturers' interests in the joint venture.

The entity's share of surpluses or deficits, resulting from purchase of assets from joint ventures are recognised only when the assets are resold to an independent party.

1.10 Investment in joint ventures (CONTINUED)

The investment in a joint venture is accounted for under the equity method in the entity's financial statements. Under the equity method, on initial recognition the investment in the joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the entity'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 different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements.

If the entity's share of losses of the joint venture equals or exceeds its interest in the joint venture, the entity 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 entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The entity 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 entity shall account for its investment in accordance with GRAP 6.
- If the retained interest in the former joint venture is a financial asset, the entity measures the retained interest at fair value. The entity recognises in surplus or deficit any difference between:
  - the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture;
  - the carrying amount of the investment at the date the equity method was discontinued.
- When the entity discontinues the use of the equity method, the entity accounts for all amounts previously recognised in surplus or deficit 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.

The entity recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

1.11 Insurance and risk management

The insurance and risk management policies adopted by Armscor 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 entity'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.

1.12 Financial instruments

Recognition

Financial instruments are initially recognised on the statement of financial position when the entity becomes party to the contractual provisions of the instrument. A financial asset and a financial liability is initially recognised at its fair value plus, in the case of a financial asset or a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability. Subsequent measurement for each category is specified in the sections below.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in the fair value of the financial assets or financial liabilities are recorded.

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a entity 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 surplus or deficit.

Financial assets

The entity categorises its financial assets in the following categories: loans and receivables, investments fair valued through surplus or deficit and cash and cash equivalents. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

1.12 Financial instruments (CONTINUED)

1.12.1 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 surplus or deficit when the loans and receivables are derecognised or impaired, and through the amortisation process.

The entity 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, short-term deposits, 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 comprise of employee loans. These loans are interest bearing over periods that vary between one and six months.

1.12.2 Investments

Investments in financial instruments are classified and measured as follows:

Investment	Classification	Carrying value
Government and other bonds	At fair value through Investment income	Fair value
Shares - Listed	At fair value through Investment income	Fair value
Derivative instruments	At fair value through Investment income	Fair value
Deposits and banking institutions	At fair value through Investment income	Fair value
International investments	At fair value through Investment income	Fair value

Subsequent to initial recognition, all financial instruments classified at fair value through investment income are measured at fair value with changes in their fair value recognised in the surplus or deficit.

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

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 surplus or deficit 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 surplus or deficit when the liability is derecognised.

Financial guarantee contracts

Financial guarantee contracts issued by the entity 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.

Financial guarantees are derecognised when the obligation is extinguished, expire or transferred. The entity 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 entity assesses at each statement of financial position date whether objective evidence exists that a financial asset or a group of financial assets are impaired.

1.12 Financial instruments (CONTINUED)

1.12.2 Investments (CONTINUED)

Financial assets carried at amortised cost

The entity 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 are 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 financial performance.

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 financial performance.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit 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 entity 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.

1.13 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

Recognition

The entity recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

The entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

1.13 Statutory receivables (CONTINUED)

Derecognition

The entity derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the entity, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.14 Tax

Current tax assets and liabilities

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 tax assets and liabilities

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 surplus or deficit except to the extent that it relates to a transaction that is recorded directly in net assets, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the surplus or deficit, except to the extent that it relates to items previously charged or credited directly to net assets.

1.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue 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 revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue from exchange transactions in statement of financial performance.

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 or liability.

1.16 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Inventories are stated at the lower of 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.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost 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 or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17 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 surplus or deficit 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.

1.18 Impairment of assets

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Identification

When the carrying amount of an asset exceeds its recoverable amount, it is impaired.

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

The recoverable amount of an asset 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.

1.18 Impairment of assets (CONTINUED)

Value in use

Value in use of an asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of an impairment loss for an asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

At initial recognition, the entity designates an asset as non-cash-generating or as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

1.19 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 in order 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 Department of Defence.

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 accumulated surplus 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.

f) Post-retirement medical reserve

The reserve was established to ring-fence funds to ensure adequate cover for Armscor's post-retirement medical obligation.

1.20 Share capital / contributed capital

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

1.21 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- 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;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

b) Post-employment benefits: Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The entity 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.

c) Post-employment benefits - Defined benefit plan

The group provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the qualifying 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. Independent qualified actuaries carry out valuations of these obligations. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

Actuarial gains and losses during the valuation period, arising from experience adjustments and changes in actuarial assumptions, are recognised immediately in the statement of financial performance.

The entity discloses relevant information relating to the post-retirement medical obligation in the notes to the financial statements (see note 20).

d) Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

The entitlement to other long-term employee benefits is based on the service period provided by qualifying employee and the completion of certain minimum service period milestones. The expected costs of these benefits are accrued over the period of employment. Management carry out valuations of these obligations. The cost of providing benefits is determined using the projected unit credit valuation method.

The entity discloses relevant information relating to the other long-term employee benefits obligation in the notes to the financial statements (see note 20).

1.22 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

1.22 Provisions and contingencies (CONTINUED)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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 end of 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.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.23 Commitments

Items are classified as commitments when there is a contractual arrangement or an approval by management in a manner that raises a valid expectation that the Group will discharge its responsibilities thereby incurring future expenditure that will result in the outflow of cash.

Capital commitments relates to contractual arrangement or an approval by management in a manner that raises a valid expectation that the Group will discharge its responsibilities thereby incurring future capital expenditure that will result in the outflow of cash and an inflow of capital assets. Capital commitments are differentiated between commitments for property, plant and equipment and for intangible assets.

Commitments are measured at fair value after taking into account accruals and payments.

1.24 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to Armscor directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

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

Revenue from exchange transactions are disclosed in note 25.

Revenue from exchange transaction is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.24 Revenue from exchange transactions (CONTINUED)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity 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 or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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 reporting date. 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 or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date 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 is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

1.25 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where Armscor received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Apart from services in kind, which are not recognised, an inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from non-exchange transactions are disclosed in note 27.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

1.26 Cost of sales

The related cost of providing goods and services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:
- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract

1.27 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.28 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the entity is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.

The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Recognition

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.29 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.30 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 Irregular expenditure

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

Irregular expenditure receivables are measured at the amount that is expected to be recovered and are de-recognised when settled or written-off as irrecoverable.

Irregular expenditure is removed from the balance of the irregular expenditure notes when it is either -
(a) condoned by the relevant authority if no official was found to be liable in law;
(b) recovered from an official liable in law;
(c) written-off if it's irrecoverable from an official liable in law; or
(d) written-off if it's not condoned and not recoverable.

1.32 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Armscor's activities are reported in the following segments: Corporate, Dockyard and Research & Development (R&D).

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management.

Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment.

1.33 Budget information

The approved budget covers the fiscal period from 1 April 2021 to 31 March 2022, and is prepared on zero-based budgeting basis.

The budget for the economic entity includes all the entities approved budgets under its control, except for the Armscor Medical Benefit Fund.

The annual financial statements and the budget are on the same basis of accounting and are classified and presented based on the nature of the expenses, therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Material deviations are explained in the relevant notes to the annual financial statements.

1.34 Related parties

A related party is an individual as well as their close family members, and /or entities are related party if one part has the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

1.34 Related parties (CONTINUED)

Management is regarded as a related party and comprise of the Board of Directors and Executive Committee Members.

1.35 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.36 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the annual financial statements.

A living resource is recognised as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

Where the entity is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the annual financial statements.

1.37 Change in accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Armscor shall change an accounting policy only if the change:
- is required by a standard of GRAP; or
- results in the financial statements providing reliable and more relevant information about the effects of the transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

	2022 '000	2021 '000

2. Reporting Framework

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations and directives issued by the International Accounting Standards Board (IASB).

In terms of these standards (GRAP), in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order, in developing an accounting policy for such a transaction, event or condition.

- Standards of GRAP (Generally Recognised Accounting Practices) that have been issued, but are not yet effective;
- IPSAS (International Public Sector Accounting Standards); and
- IFRS (International Financial Reporting Standards).

3. Inventories

	2022 '000	2021 '000
Raw materials, components	1,709	2,172
Work in progress	3,913	3,309
Finished goods	1,135	980
Consumables	7,403	7,528
	14,160	**13,989**

The amount of inventories written off during the year is R604 thousand (2021: R Nil), whilst inventories utilised and expensed to general expenses during the year is R3 176 thousand (2021: R12 688 thousand).

4. Current tax payable

2022	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Penalties and interest levied by SARS	Income tax payable at the end of the year
Current tax payable/(recievable)	(63)	2,775	(2,702)	(1)	9

2021	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Prior year adjustment	Income tax receivable at the end of the year
Current tax payable/(recievable)	5,019	345	(5,453)	26	(63)

	Note(s)	2022 '000	2021 '000

5. Receivables from exchange transactions

Trade debtors		171,238	58,591
Prepayments		2,096	2,509
Deposits		1,463	1,559
Other debtors		12,971	2,122
Other related party debtors		875	1,178
Interest receivable		42,883	34,941
		231,526	**100,900**

Trade receivables past due but not impaired

Management has made an assessment and they concluded that there are no other indications of impairment.

The ageing of amounts past due but not impaired is as follows:

Current		75,462	20,287
31 - 60 days		28,863	6,361
61 - 90 days		10,745	5,855
91 - 120 days		19,464	8,490
121 days and older		36,704	17,598
		171,238	**58,591**

Trade and other receivables impaired

During the year-ended, 31 March 2022 trade and other receivables of R43 212 thousand (2021: R20 272 thousand) were impaired and provided for.

Reconciliation of provision for impairment of trade and other receivables

Opening balance		119,788	154,430
Provision for impairment		43,212	20,272
Amounts recovered during the year		(8,314)	(50,320)
Impairment losses reversed		(35,461)	(4,589)
Amounts written off as uncollectable		(1,724)	(5)
		117,501	**119,788**

An amount of R35 461 thousand (2021: R4 589 thousand) was reversed during the year as DPWI continues to make partial payment on long-outstanding invoices related to rental and DOD for travel management services.

6. Receivables from non-exchange transactions

Other receivables from non-exchange transactions		542	1,409

	2022 '000	2021 '000

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022 '000	2021 '000
Cash on hand	179	81
Bank balances	51,685	148,855
Short-term deposits	413,799	663,720
	465,663	**812,656**

Included in cash and short-term deposits is an amount of R11 463 thousand (2021: R14 715 thousand) in respect of cash allocated to the insurance reserve and R67 693 thousand (2021: R65 353 thousand) in respect of Dockyard's post-retirement medical benefits as per note 20.

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 three 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.

Figures in Rand Thousands

8. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25,000	-	25,000	50,730	-	50,730

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	50,730	(25,730)	25,000

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	47,270	3,460	50,730

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2022.
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 Comparative Sales Method (Market Approach).

Expenditure incurred relating to land amounted to R Nil (2021: R Nil). No revenue is generated from the investment property, however Armscor is actively looking at ways to develop the property.

Investment property is revalued independently on an annual basis.

The following assumptions were applied by the valuator:

- The property is developable,
- No onerous conditions exist on the title deeds.
- No special assumptions were made.

9. Non-living resources

Entity as custodian

The nature of the entity's custodial responsibility, including the legislation or similar means that establishes the custodial responsibility over the resources, are as follows: Armscor has a number of boreholes systems situated in some of the properties it owns.

Nature and types of non-living resources for which the entity is responsible

Borehole water: Boreholes existing at various divisions, including R&D and Armscor Corporate, properties. These boreholes are mainly used for purposes of irrigation in around the properties.

Liabilities and/or contingent liabilities that arise from the non-living resources:

Boreholes water: There is no liability arising from this non-living resource.

10. Living resources

Living resources not recognised

The entity did not recognise the following living resources, due to the definition and/or recognition criteria not being met:

Wild game animals

The nature and type are as follows: In one of the Armscor's property situated in the Alkantpan Test Range, a number of game (wild animals) are found in around the property. The game naturally existed in the greater area where the property is situated and they were never specifically acquired or obtained by other non-exchanged transaction means by Armscor.

In and around the property, the game can move freely to adjacent land/farms and is not fenced off by means of proper game fencing which will restrict movement of the game. The game in the property cannot be tagged, and have unrestricted access to the property and adjacent and/farms.

Armscor does not intervene in the physical condition of the game, or restrict the movement of the game and also does not have the ability to direct the use of the game in around the property area. Therefore, the entity does not control the game.

There were no disposal of the living resources during the year.

Figures in Rand Thousands

11. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	264,101	-	264,101	626,885	-	626,885
Buildings	848,278	(4,211)	844,067	1,064,801	(112,798)	952,003
Plant and machinery	210,416	(151,385)	59,031	187,884	(129,355)	58,529
Office equipment, furniture and computers	222,288	(183,016)	39,272	211,511	(179,724)	31,787
Vehicles and vessels	93,826	(74,655)	19,171	90,655	(69,497)	21,158
Capital assets under development	113	-	113	28	-	28
Total	**1,639,022**	**(413,267)**	**1,225,755**	**2,181,764**	**(491,374)**	**1,690,390**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	626,885	-	-	(362,784)	-	264,101
Buildings	952,003	11,955	(2,145)	(64,552)	(53,194)	844,067
Plant and machinery	58,529	17,562	(96)	-	(16,964)	59,031
Office equipment, furniture and computers	31,787	23,110	(185)	-	(15,440)	39,272
Vehicles and vessels	21,158	5,636	(42)	-	(7,581)	19,171
Capital assets under development	28	85	-	-	-	113
	1,690,390	**58,348**	**(2,468)**	**(427,336)**	**(93,179)**	**1,225,755**

	Note(s)	2022 '000	2021 '000

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Assets written off	Depreciation	Total
Land	626,885	-	-	-	626,885
Buildings	999,109	5,702	-	(52,808)	952,003
Plant and machinery	45,847	27,739	(48)	(15,009)	58,529
Office equipment, furniture and computers	40,056	9,066	(6)	(17,329)	31,787
Vehicles and vessels	19,400	8,648	(72)	(6,818)	21,158
Capital assets under development	-	28	-	-	28
	1,731,297	**51,183**	**(126)**	**(91,964)**	**1,690,390**

a) Depreciation rates

Buildings	Straight-line	3 - 70 years
Plant and machinery	Straight-line	5 - 15 years
Office equipment, furniture and computers	Straight-line	2 - 20 years
Vehicles and vessels	Straight-line	5 - 15 years

Revaluations

The effective date of the revaluations was 31 March 2022. Revaluations were performed by independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the land and buildings being valued and who is not connected to the entity.

Land and buildings are re-valued independently every three years.

The valuations were performed using the Income Capitalisation Approach, Market Approach, Discounted Cash Flow and the Accrued Depreciated Replacement Cost Method.

Contractual commitments

Contractual commitments for acquisition of property, plant and equipment amounts to R64 726 thousand
(2021: R12 024 thousand).

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

	2022	2021
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	6,829	6,427
General expenses	5,281	1,618
	12,110	**8,045**

	Note(s)	2022 '000	2021 '000

11. Property, plant and equipment (continued)

Other matters

Included in the Group's value of plant, machinery and equipment are assets at contractors with a cost of R2 955 thousand (2021: R2 955 thousand) that are fully depreciated. These assets are no longer in use and are kept for strategic purposes.

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 : R10 935 thousand (2021: R10 935 thousand)
Buildings : R92 774 thousand (2021: R93 889 thousand)

Included in buildings are:

IMT building erected on leasehold premises with a net book value of R70 400 thousand (2021: R56 300 thousand). 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 and Infrastructure.

The Paardefontein building erected on land owned by the State with a net book value of R2 400 thousand (2021: R3 400 thousand). The premises comprise of 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.

Alkantpan water pipeline runs from Prieska to Copperton, which is approximately 70 kilometers. The pipeline, runs through farms of which the division has servitude on. The pipeline is owned and controlled by Alkantpan and its value is included in the valuation of Alkantpan property. It provides water to Alkantpan Test Range, Mine, Farms and Copperton Town.

Change in estimates:

The group reassesses the useful lives and residual values of items of property, plant and equipment at the end of each reporting period, in line with the accounting policy and GRAP 17 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

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 R4 693 thousand (2021: R4 585 thousand decrease).

The group is unable to estimate the impact of the change in estimate for future periods due to impracticality as a result of the financial system limitations.

Figures in Rand Thousands

12. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	17,570	(1,476)	16,094	-	-	-
Computer software	15,717	(11,020)	4,697	16,476	(13,208)	3,268
Intangible assets under development	7,502	-	7,502	18,409	-	18,409
Total	**40,789**	**(12,496)**	**28,293**	**34,885**	**(13,208)**	**21,677**

Reconciliation of intangible assets - 2022

	Opening balance	Additions	Internally generated	Transfers	Amortisation	Total
Patents, trademarks and other rights	-	-	-	17,570	(1,476)	16,094
Computer software	3,268	2,828	-	54	(1,453)	4,697
Intangible assets under development	18,409	-	6,717	(17,624)	-	7,502
	21,677	**2,828**	**6,717**	**-**	**(2,929)**	**28,293**

Reconciliation of intangible assets - 2021

	Opening balance	Internally generated	Amortisation	Total
Computer software	5,462	-	(2,194)	3,268
Intangible assets under development	13,177	5,232	-	18,409
	18,639	**5,232**	**(2,194)**	**21,677**

	2022 '000	2021 '000

12. Intangible assets (continued)

Intangible assets in the process of being constructed or developed:

Cumulative expenditure recognised in the carrying value of Intangible assets	2022 '000	2021 '000
Ultrasonic Broken Railway Detection development	6,717	5,178
Computer software	2,828	54
	9,545	**5,232**

Transfers

Transfers made in 2022 relate to assets which were under development and are now recognised as intangible assets.

Amortisation rates

Computer software	Straight line	2 - 8 years

Contractual commitments

Contractual commitments for acquisition of intangible assets amounts to R8 181 (2021: R2 495 thousand).

Figures in Rand Thousands

13. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	12,746	-	12,746	13,829	-	13,829

Reconciliation of heritage assets 2022

	Opening balance	Revaluations	Total
Historical buildings	13,829	(1,083)	12,746

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical buildings	13,829	13,829

Fair value of heritage assets (measured at cost less accumulated impairment losses)

Heritage assets 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 : R1 727 thousand (2021: R1 727 thousand)

Buildings : R39 204 thousand (2021: R42 629 thousand)

	2022 '000	2021 '000

14. Interests in other entities

Investments in controlled entities

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2022	% ownership interest 2021	Carrying amount 2022	Carrying amount 2021
Armscor Defence Institutes SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Oospark SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Sportrand SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Erasmus Eiendomme SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
					-	-

The carrying amounts of controlled entities are shown net of impairment losses.

All these entities are fully owned by Armscor for strategic business purposes but are dormant since 1 April 2013 and has not traded during the period.

Armscor has the power to govern the financial and operating policies of all these entities so as to obtain benefits from their activities

Investments in joint ventures

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2022	% ownership interest 2021	Carrying amount 2022	Carrying amount 2021
African Aerospace and Defence	South Africa	Joint Venture	33.33 %	33.33 %	-	-

The carrying amounts of joint ventures are shown net of impairment losses.

As Armscor owns 33.33% joint control in the Joint Venture, Armscor has significant influence in the Joint Venture.

	2022 '000	2021 '000

14. Interests in other entities (continued)

Interests in joint arrangements and associates

Material joint arrangements

Africa Aerospace and Defence

Name of the joint arrangement or associate:	Africa Aerospace and Defence (AAD)
Nature of the entity's relationship with the joint arrangement or associate:	Armscor entered into a joint control partnership/arrangement on 30 August 1999 with the South African Aerospace Maritime and Defence Industries (AMD) and the Commercial Aviation Association of Southern Africa (CAASA) whereby each party holds an equal interest of 33,33% in the partnership. The partnership's main business is the hosting of the Africa Aerospace and Defence exhibition which takes place bi-annually.
Domicile and legal form of the joint arrangement or associate:	South Africa
Proportion of ownership interest or participating share held by the entity:	33,33%
Proportion of voting rights held:	33,33%
The investment in the joint venture or associate is measured using:	Equity Method

Summarised financial information for the joint venture

	2022	2021
Current assets	6,597	5,947
Non-current assets	22	22
Current liabilities - non-interest bearing	9,413	7,005
Income (including investment income)	24	32
Expenditure	(1,347)	(584)
Surplus or (deficit)	(1,323)	(552)

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. There are no significant unadjusted transactions or events occurring between 28 February and 31 March.

The total unrecognised share of losses in AAD for the reporting period amounts to R1 324 thousand (2021: R552 thousand).

The total cumulative unrecognised share of losses in AAD amounts to R2 250 thousand (2021: R376 thousand).

	2022 '000	2021 '000

15. Financial instruments

Financial risk management

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

	2022		2021	
	Fair Value '000	Carrying Value '000	Fair Value '000	Carrying Value '000
Assets				
Loans and receivables	697,208	697,208	913,556	913,556
Trade and other receivables	231,526	231,526	100,900	100,900
Cash and cash equivalents	386,526	386,526	732,588	732,588
Cash allocated to insurance reserve	11,463	11,463	14,715	14,715
Cash allocated to Dockyard post-retirement benefit	67,693	67,693	65,353	65,353
At fair value	1,236,516	1,221,890	883,226	868,648
Government and other bonds	60,483	59,736	61,760	63,083
Shares - listed	74,682	64,714	67,690	59,729
Deposits at banking institutions	1,070,283	1,070,283	721,535	721,012
International investments	31,068	27,157	32,241	24,824
	1,933,724	1,919,098	1,796,782	1,782,204
Liabilities	(192,438)	(192,438)	(168,346)	(168,346)
Trade and other payables	(192,438)	(192,438)	(168,346)	(168,346)
	1,741,286	**1,726,660**	**1,628,436**	**1,613,858**

Of the fair value presented above R195 040 thousand (2021: R185 060 thousand) relates to the Medical Benefit Fund.

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.

Credit risk management

The entity 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 entity did not consider there to be any significant concentration of credit risk which has not been insured or adequately provided for. With respect to credit risk arising from the other financial assets of the entity, the entity's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2022 '000	2021 '000

15. Financial instruments (continued)

Liquidity risk

The entity'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.

Capital management

Capital includes equity attributable to the equity holders. The primary objective of the entity's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios in order to support its business. The entity 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 2022. The entity does not have external imposed capital requirements. The entity 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

	2022	2021
Trade and other payables	(192,438)	(168,347)
Cash and cash equivalents	465,663	812,656
	273,225	**644,309**

Interest rate risk

The entity'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
2022	+/- 50	+/- 7,3 million
	+/- 25	+/- 3,7 million
2021	+/- 50	+/- 8 million
	+/- 25	+/- 4 million

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.

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 entity is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the entity 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.

	2022 '000	2021 '000
16. Payables from exchange transactions		
Trade payables	16,345	16,157
Payments received in advanced - contract in process	63,903	53,953
Other payables	14,801	7,322
Accrued expenses	50,103	39,798
Deposits received	44	44
	145,196	**117,274**
Aging of trade payables		
Current	13,135	10,128
31 - 60 days	203	(1,352)
61 days and older	3,007	7,381
	16,345	**16,157**
17. Payables from non-exchange transactions		
Taxes payable	23,102	25,807
Other payables from non-exchange transactions	6,296	980
Prepayments received for projects	15,163	19,367
Defence stock sales prepayment	2,681	4,918
	47,242	**51,072**
18. Deferred income		
Movement during the year		
Balance at the beginning of the year - grants	58,796	68,133
Balance at the beginning of the year - other deferred income	25,872	26,900
Additions during the year - grants	-	22,732
Additions during the year - other deferred income	38,563	112,047
Utilised and other movements during the year - grants	(14,683)	(32,069)
Utilised and other movements during the year - other deferred income	(48,938)	(113,075)
	59,610	**84,668**
Non-current liabilities	11,716	19,851
Current liabilities	47,894	64,818
	59,610	**84,669**

Unspent conditional grants and receipts relates to cash, stock and assets received in relation to the Department of Defence projects, 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.

	2022 '000	2021 '000

19. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	57,313	37,364	(48,731)	(2,427)	43,520
Provision for performance bonus	34,539	47,426	(34,320)	(917)	46,728
	91,852	**84,790**	**(83,051)**	**(3,344)**	**90,248**

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	63,271	47,767	(51,819)	(1,907)	57,313
Provision for performance bonus	70,567	34,539	(69,096)	(1,471)	34,539
	133,838	**82,306**	**(120,915)**	**(3,378)**	**91,852**

Performance remuneration is discretionary and for the 2021/22 financial year will be paid upon the completion of the performance evaluation process, subject to approval by the Board of directors.

20. Employee benefit obligations

20.1 Defined Contribution Pension Fund and Provident Fund

The entity 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 1 member is R Nil (2021: R Nil) as the pensioners account in the pension fund is sufficiently funded.

	2022	2021
The amount of contributions to the above scheme	70,641	76,010

20.1.1 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.

	2022	2021
The amount of contributions to the above scheme	22,890	16,802

	2022 '000	2021 '000

20. Employee benefit obligations (continued)

20.2 Post-retirement medical benefits

The GRAP 25 valuation of the Group's post employment benefits was carried out at 31 March 2022.

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.

	2022	2021	2020	2019	2018
Present value of unfunded obligations	284,106	250,894	218,976	226,164	237,390
Net obligation	284,106	250,894	218,976	226,164	237,390
Net liability in statement of financial position	**284,106**	**250,894**	**218,976**	**226,164**	**237,390**

The liability amount reflect the Group post-retirement medical benefit.

20.2.1 Post retirement medical benefits (excluding Armscor and Dockyard personnel transferred from the SA Navy)

The entity currently provides post retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the qualifying 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.

Based on the latest projection performed at 31 March 2022 the present value of the obligation is R106 562 thousand (2021: R100 781 thousand). Based on the latest projections, the value of the obligation for 31 March 2023 is R113 285 thousand. Based on the projection performed at 31 March 2022 financial assets held aside specifically for this purpose are sufficient to cover the liability. The financial assets held aside are R195 087 thousand (2021: R185 104 thousand).

Reconciliation of the present value of the funded obligations (Group – excluding Dockyard)		
Opening balance	100,781	90,855
Current service cost	1,095	1,076
Interest cost	12,536	11,482
Expected employer benefit payments	(4,746)	(4,448)
Actuarial (gain)/loss	(3,104)	1,816
Expected closing balance	**106,562**	**100,781**

Reconciliation of the net liability in the statement of financial position and amounts recognised in surplus/deficit		
Opening balance	100,781	90,855
Expense recognised in employee remuneration costs	10,527	14,374
Employer benefit payments	(4,746)	(4,448)
	106,562	**100,781**

	2022 '000	2021 '000

20. Employee benefit obligations (continued)

Net benefit expense (recognised in employee remuneration costs)		
Current service cost	1,095	1,076
Interest cost	12,536	11,482
Actuarial (gain)/loss recognised	(3,104)	1,816
	10,527	**14,374**

The main actuarial assumptions are:		
Discount rate	11,2%	12,6%
Health care cost inflation	8,6%	9,9%
CPI inflation	6,6%	7,9%
Average retirement age	63	63

The value of the liability is particularly sensitive to the assumed rate of health care cost inflation. A one percentage change in the assumed rate would have the following effects for the Group benefit obligation and the aggregate service cost and interest cost:

Sensitivity on defined benefit obligation	-1%	Base	+1%
Healthcare inflation	95,629	106,562	119,551
Service cost plus interest cost (next financial year)	11,342	12,752	14,439
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	90,382	100,781	113,140
Service cost plus interest cost (next financial year)	12,078	13,580	15,376

20.2.2 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 healthcare 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 GRAP 25 valuation of the Dockyard's post-employment benefits was carried out on 31 March 2022. This actuarial valuation of the employer's liability as at 31 March 2022 arises as a result of post-employment healthcare benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed at 31 March 2022 the accrued liability exceeds the funds held aside specifically for this purpose. The funds held aside is R67 693 thousand (2021: R65 353 thousand).

The funds held aside specifically for this purpose at 31 March 2022 is not sufficient to cover the accrued liability and is summarised below:

Present value of the unfunded obligation	177,544	150,113
Net obligation	177,544	150,113
Less: Funds received	(67,693)	(65,353)
Net liability as at 31 March 2022	**109,851**	**84,760**

	2022 '000	2021 '000

20. Employee benefit obligations (continued)

A projection of results of the valuation as at 31 March 2022 to 31 March 2023 is set out below:

	2022 '000	2021 '000
Accrued liability as at 31 March	177,544	150,113
Interest cost	19,275	19,793
Service cost	708	1,220
Expected employer benefit payments	(9,198)	(7,249)
Projected accrued liability for the next financial year	**188,329**	**163,877**

Actuarial assumptions for Dockyard

	2022 '000	2021 '000
Reconciliation of present value of the unfunded obligation		
Opening balance	150,113	128,121
Current service cost	1,220	1,214
Interest cost	19,803	16,850
Actuarial loss	13,504	7,287
Expected employer benefit payments	(7,096)	(3,359)
Closing balance	**177,544**	**150,113**

	2022 '000	2021 '000
Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position		
Present value of unfunded obligation	177,544	150,113

	2022 '000	2021 '000
Net benefit expense (recognised in employee remuneration)		
Current service cost	1,220	1,214
Interest cost	19,803	16,850
Actuarial gain/(loss)	13,504	7,287
	34,527	**25,351**

	2022	2021
The main actuarial assumptions are:		
Discount rate	11,4%	13,4%
Health care cost inflation	8,4%	10,6%
CPI inflation	6,4%	8,6%
Average retirement age	63	63

The value of the liability is particularly sensitive to the assumed rate of healthcare cost inflation. 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	160,053	177,544	194,497
Service cost plus interest cost (next financial year)	17,901	19,983	22,044
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	138,937	150,113	155,478
Service cost plus interest cost (next financial year)	19,294	21,013	22,009

Summary of defined medical benefit expense for all funds

	2022 '000	2021 '000
Defined medical benefit expense (post-retirement) included in employee cost:		
Current service cost	2,315	2,290
Interest cost	32,339	28,332
Actuarial cost	10,400	9,103
	45,054	**39,725**

	2022 '000	2021 '000

20. Employee benefit obligations (continued)

20.3 Other long-term employee benefits

Armscor offers eligible employees long service awards for attaining certain service.

There are two types of awards given by the entity: Long service leave and Long service cash awards

Long service leave award:

The Group provides employees with five (5) additional leave days per year after having completed ten (10) consecutive years of service. Employees annual leave entitlement is increased with these days whereby an employee qualifies for five (5) additional working days leave per year.

Long service cash award:

The Group expresses its appreciation for employees' loyal and faithful uninterrupted long service with the Group in accordance with the following predetermined rules, as set out below.

Years of services	Cash benefit
5 years' of service	R900
10 years' of service	R1 800
15 years' of service	R2 700
20 years' of service	R3 600
25 years' of service	R4 500
30 years' of service	R5 400
35 to 45 years' of service	R6 000

The GRAP 25 valuation of the obligation was carried out on the 31 March 2022 using the Projected Unit Credit method.

At the reporting date, the Group had 1354 (2021: 1455) employees entitled to the long service benefits.

Based on the latest projection performed at 31 March 2022 the present value of the combined obligation amounts to R80 711 thousand (2021: R53 280 thousand). Based on the latest projections, the value of the obligation for 31 March 2023 is R84 736 thousand. There are no plan assets for this liability.

Note: The obligation relating to the two types of awards are disclosed as one for the current and prior year for comparability purposes as the same acturial assumptions were applied on the awards in the valuation. The figures for the prior year are unchanged. Some of the year-on-year movements for long service obligation are not available as the actuarial valuation was undertaken for the first time in the current year.

	2022 '000	2021 '000
Reconciliation of the present value of the obligations		
Opening balance	53,280	54,213
Current service cost	-	4,854
Interest cost	-	6,831
Expected employer benefit payments	-	(12,618)
Actuarial loss	27,431	-
Expected closing balance	**80,711**	**53,280**

	2022 '000	2021 '000
Reconciliation of the net liability in the statement of financial position and amounts recognised in surplus/deficit		
Opening balance	53,280	54,213
Expense recognised in employee related costs	27,431	11,685
Employer benefit payments	-	(12,618)
	80,711	**53,280**

	2022 '000	2021 '000
20. Employee benefit obligations (continued)		
Current portion of obligation	10,838	-
Non-current portion of obligation	69,873	53,280
Total obligation	**80,771**	**53,280**
Net benefit expense (recognised in employee related costs)		
Current service cost	-	4,854
Interest cost	-	6,831
Actuarial loss recognised	27,431	-
	27,431	**11,685**
The main assumptions are:		
Discount rate	9.86%	12,6%
Future salary inflation	6,35%	4,6%
Average remaining years of service	18	20

The value of the liability is particularly sensitive to the assumed discount rate, average annual staff turnover rate and the future salary inflation rate. Quantitative sensitivity analysis for significant assumptions on the obligation as at 31 March 2022 results when assumptions are increased or decreased are as shown below:

Sensitivity on other long-term employee benefit obligation	-1%	Base	+1%
Discount rate	85,357	80,711	76,518
Future salary inflation	76,968	80,711	84,791

Sensitivity results from previous valuation	-1%	Base	+1%
Discount rate	55,176	50,797	47,062
Future salary inflation	45,239	50,797	57,143

21. Deferred tax

Deferred tax liability

	2022 '000	2021 '000
Deferred taxation	(7,048)	(7,353)

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

Reconciliation of deferred tax liability

	2022 '000	2021 '000
At beginning of year	(7,353)	(2,154)
Current year movement on fair value adjustment	305	(5,199)
	(7,048)	**(7,353)**

22. Share capital / contributed capital

	2022 '000	2021 '000
Authorised		
1 000 000 000 Ordinary shares of R1 each.	1,000,000	1,000,000
Issued and fully paid		
Ordinary	75,000	75,000

Share Capital is under the control of the Executive Authority.

	2022 '000	2021 '000

23. Revaluation reserve

The revaluation reserves relates to the revaluation surplus relating to the revalued land and buildings (refer to note 11, 13 and 8).

	2022 '000	2021 '000
Opening balance	1,674,637	1,702,618
Release to accumulated surplus	(27,879)	(27,981)
Revaluation (loss) for the year	(405,218)	-
	1,241,540	**1,674,637**

24. Other non-distributable reserves

	2022 '000	2021 '000
Property and Building Maintenance Reserve	232,555	250,000
Marketing Promotion Reserve	6,904	6,904
Computer Services Upgrade Reserve	131,187	150,000
Internal Insurance Reserve	11,463	14,715
Post-retirement Medical Reserve	17,916	17,916
	400,025	**439,535**

25. Revenue

	2022 '000	2021 '000
Sale of goods	62,021	31,240
Rendering of services	212,344	270,572
Deferred income recognised	19,492	37,545
Rental income	62,722	71,421
Other income	21,126	13,087
Interest received (Refer to note 26)	86,188	89,169
Dividends received (Refer to note 26)	2,576	2,004
Government grants (Refer to note 27)	1,237,340	1,075,780
	1,703,809	**1,590,818**

	2022 '000	2021 '000
The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	62,021	31,240
Rendering of services	212,344	270,572
Deferred income recognised	19,492	37,545
Rental income	62,722	71,421
Other income	21,126	13,087
Interest received	86,188	89,169
Dividends received	2,576	2,004
	466,469	**515,038**

	2022 '000	2021 '000
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants	1,237,340	1,075,779

Revenue for the group comprise of a government grant, sale of own manufactured goods, revenue from facilitating sale of defence equipment for government and entities, services rendered to the DOD utilising secondary grants received, income from leasing of own properties and interest income from investment of cash on hand.

	2022 '000	2021 '000

26.Investment revenue

Dividend revenue		
Dividend received	2,576	2,004
Interest revenue		
Interest received - Investments	2,570	3,230
Interest received - financial institutions	83,616	85,983
Interest charged on trade and other receivables	-	(68)
Interest received - other	2	24
	86,188	**89,169**
	88,764	**91,173**

Dividend income is recognised on the date the Armscor Medical Benefit Fund's right to receive payment is established.

27.Government grants and Donations

Operating grants		
Government grant - Department of Defence (DOD)	1,237,340	1,075,779

Conditional and Unconditional - Government grant

Armscor's operating funds are appropriated by Parliament and 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 Memorandum of Agreements 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.

Nature and type of services in-kind are as follows:

In terms of the Dockyard transfer agreement for the Naval Dockyard in Simon's Town, the Dockyard division, in its role of servicing the SA Navy, occupies a building owned by the SA Navy at no cost and has access to the use of the SA Navy's docking facilities at a valued gross market rental amount of R19 770 thousand per annum.

28.Employee related costs

Salaries and wages	774,687	810,951
Bonus	47,053	33,538
Employer contributions	143,603	152,931
Leave pay provision charge	32,428	46,459
Other short term employee related costs	16,547	12,119
13th cheques	56,985	60,263
Less: Employee costs included in other expenses	(43,364)	(57,950)
Long-term benefits - incentive scheme	27,432	(934)
Post-retirement benefits	140,463	63,291
	1,195,834	**1,120,668**

Remuneration of non-executive directors

Annual Remuneration	4,320	2,706

Refer to note 39 for remuneration of non-executive directors.
Included under the employee cost above, is voluntary severance packages (VSP) cost paid in the current year amounting to R83 843 thousand.

	2022 '000	2021 '000

29. Lease rentals on operating leases

Premises		
Contractual amounts	446	593
Contingent amounts	-	55
Motor vehicles		
Contractual amounts	27	1
Equipment		
Contractual amounts	1,482	1,217
Contingent amounts	249	225
	2,204	**2,091**

30. Impairment losses recognised

Debt impairment	1,363	191
Bad debts reversed on receivables from exchange	(1,691)	(29,223)
	(328)	**(29,032)**

31. Cost of sales

Sale of goods		
Cost of goods sold	50,822	7,822
Cost of rendering of services	76,253	106,538
	127,075	**114,360**

32. General expenses

Advertising	3,114	1,945
Auditor's remuneration (Refer to note 34)	7,194	6,293
Consulting and professional fees	68,257	47,331
Fines and penalties	235	26
Other operating expenses	57,319	49,804
Computer services	12,021	11,029
Postage and communication	3,297	3,391
Printing and stationery	9,486	6,201
Repairs and maintenance	17,450	17,364
Subsistence and travel	11,911	6,974
Electricity	47,877	36,841
Movement in insurance reserve	3,252	2,040
	241,413	**189,239**

33. Fair value adjustments

Investment property	(25,730)	3,460
Property, plant and equipment	(23,202)	-
Other financial assets		
• Other financial assets	2,055	28,327
	(46,877)	**31,787**

34. Auditor's remuneration

Fees	7,172	6,236
Expenses	22	57
	7,194	**6,293**

	2022 '000	2021 '000
35. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	2,775	345
Deferred		
Current year movement on fair value adjustment	(305)	5,199
	2,470	**5,544**
Reconciliation of the tax expense		
Reconciliation between accounting surplus and tax expense:		
Accounting surplus before income tax	12,746	32,048
Tax at the applicable tax rate of 45% (2021: 45%)	5,736	14,422
Tax effect of adjustments on taxable income		
Non-taxable income	(6,012)	(14,189)
Non-deductible expenditure	119	113
Net capital gain	2,932	-
	2,775	**346**
Reconciliation of income tax rate:		
Current year's charge as a percentange of income before taxation	19 %	17 %
Non-taxable income	47 %	44 %
Capital gains tax	(21)%	(16)%
	45 %	**45 %**

	2022 '000	2021 '000

36. Cash generated from operations

	2022 '000	2021 '000
Surplus before taxation	14,990	129,811
Adjustments for:		
Depreciation and amortisation	96,107	94,159
Loss on disposal of assets	2,362	103
Assets written off	246	21
Gain on foreign exchange transactions	(18,389)	(197)
Fair value adjustments	46,876	(31,787)
Dividends received	(2,576)	(2,004)
Bad debts recovered	(328)	(29,032)
Movements in retirement benefit assets and liabilities	60,644	30,984
Movements in provisions	(1,604)	(41,987)
Gain on disposal of investment	(8,967)	(1,305)
Normal taxation	(2,703)	(5,427)
Changes in working capital:		
Inventories	(448)	(3,941)
Receivables from exchange transactions	(111,909)	151,214
Receivables from non-exchange transactions	867	(1,409)
Payables from exchange transactions	27,922	14,297
VAT payable	(10,316)	7,361
Payables from non-exchange transactions	(3,830)	(1,740)
Deferred income	(25,059)	(10,363)
VAT receivable	(3,430)	-
	60,455	**298,758**

37. 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. Certain 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 under operating leases for the year is R2 205 thousand (2021: R2 092 thousand) of which R151 thousand (2021: R460 thousand) relates to contingent rentals on operating leases.

Additionally, interdivisional lease charges, amounting to R21 956 thousand (2021: R20 712 thousand), for occupation of the floor space is charged for the administration of the building for maintenance of the Armscor Head Office.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2022 are as follows:

	2022 '000	2021 '000
Within one year	724	397
After one year but not more than five years	-	64
	724	**461**

	2022 '000	2021 '000

37. Operating lease commitments - Group as lessee and lessor (continued)

Lessor disclosure

a) The Group entered into operating lease relating to Armscor Head Office and R&D facilities, with regards to office space, parking and advertising space.

b) The Group entered into a operating lease with the DPWI relating to Armscor Head Office, with regards to office space and parking. The lease commenced on 1 June 2021 for a period of 60 months. There is a fixed escalation of 6.5% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

c) The Group entered into operating leases relating to R&D facilities, with regards to office space and parking. One lease commenced on 1 June 2019 for a period of 119 months with a fixed escalation of 8% per year on the minimum lease installment. Another lease for a period of 10 years expiring in 2031 with a fixed escalation of CPI plus 2% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

d) The Group entered into a operating lease relating to the Armscor Head Office, with regards to the rental of adverting space. The lease commenced on 1 December 2020 for a period of 119 months. There is a fixed escalation of 7.5% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2022 are as follows:

	2022	2021
Within one year	55,279	61,536
After one year but not more than five years	200,497	784
More than five years	5,568	426
	261,344	**62,746**

38. Contingencies

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R161 thousand (2021: R166 thousand) and to a foreign contractor amounting to R Nil (USD Nil [2021: R Nil (USD Nil)] 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 R15 697 thousand (2021: R7 676 thousand) with regard to local guarantees.

Alkantpan

At 31 March 2022 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 No. 107 of 1998), section 28 (1) which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimize degradation of the environment.

Certain options were investigated which included a project to acquire the best estimate for the cost of Alkantpan rehabilitating the land. The rehabilitation project estimated the cost based on two options, option 1 which envolves the return of Alkantpan to the approved sustainable end state at the closure of operations, option 2 envolves the clearing and fencing of the testing area. As no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility which is partially funded by the Department of Defence, Alkantpan has elected to manage the range in compliance with the Act and to continue with its day to day clearing actions, thus estimating the contingent liability to be R162 487 thousand.

38. Contingencies (continued)

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 are sufficient to manage the range in compliance with the Act.

The cost incurred for rehabilitating the site during the period under review was an amount of R Nil (2021: R Nil). The estimated costs to fully rehabilitate the test range cannot be reliably estimated at this stage and further discussions are still underway.

39. Related parties

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 transfer payment of R1 286 978 thousand (2021: R1 198 423 thousand) from the State through the Department of Defence (DOD) as well as secondary transfer payments (in terms of separated Memorandum of Agreements) for services rendered to the DOD.

Armscor does not disclose the value of transactions with other public sector entities as the transactions were concluded within normal operating procedures and on terms that are no more or no less favourable than the terms it would use to conclude transactions with another entity or person.

Dormant subsidiaries (At 100% Holdings)		
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 33,33% partner in Africa Aerospace and Defence, refer to note 14 for disclosure.

	Amounts owed by related parties		Amounts owed to related parties	
	2022	2021	2022	2021
	'000	'000	'000	'000
Department of Defence	308,102	60,053	118,619	1,745
Major national public entities (Schedule 2 and 3 public entities)	4,895	7,579	185,396	36,633
National Government	81,865	71,382	-	-

	2022 '000	2021 '000

39. Related parties (continued)

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. For the year ended 31 March 2022, the Group has a provision for doubtful debts of R105 489 thousand (2021: R111 290 thousand) relating to amounts owed by related parties.

	2022 '000	2021 '000
Reconciliation of transfer payments received from the DOD		
- Primary transfer payment recognised in comprehensive income	1,256,793	1,116,415
- Secondary transfer payment received	49,638	99,911
- Funds received for Dockyard transferred to deferred income due to outstanding conditions	-	22,732
- Deferred Income recognised as transfer payment	(19,453)	(40,635)
Total transfer payments allocated by the Department of Defence	**1,286,978**	**1,198,423**

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 have been fair valued at R32 111 thousand (2021: R46 355 thousand) 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 20.

Other long-term employee benefits

Details of the Armscor other long-term employees benefits are disclosed in note 20.

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 Committee Members are ex-officio directors of the Armscor Defence Institutes' Board of Directors at 31 March 2022. 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.

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 and the Board of Directors are regarded as key management.

	Note(s)	2022 '000	2021 '000

39. Related parties (continued)

Information on the remuneration of all key management personnel is disclosed below:

Remuneration of key management personnel

Executive Directors

2022

Name	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Mr JG Grobler	2,462	489	127	403	3,481
Adv. SP Mbada	3,174	898	207	495	4,774
	5,636	**1,387**	**334**	**898**	**8,255**

2021

Name	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Mr JG Grobler	2,425	649	132	394	3,600
Adv. SP Mbada	3,124	840	207	514	4,685
	5,549	**1,489**	**339**	**908**	**8,285**

Non-Executive Directors

2022

Name	Note(s)	Fees and committee remuneration	Total
Amb JT Ndhlovu		378	378
Mr MS Motimele	12	760	760
Dr PD Dexter		962	962
Dr RC Lubisi		332	332
Ms R Matenche		357	357
Maj Gen. (Ret) LC Pepani	11	384	384
Ms F Skweyiya-Gushu		326	326
Mr TM Sukazi		310	310
Ms PN Mashinini		422	422
		4,231	**4,231**

	Note(s)	2022 '000	2021 '000

39. Related parties (continued)

2021

Name		Fees and committee remuneration	Total
Dr MB Khanyile	6	375	375
Mr NM Tyibilika	6	97	97
Mr RM Vokwana	6	137	137
Ms T Mhlari	6	127	127
Amb JT Ndhlovu	6	226	226
Mr MS Motimele	5	794	794
Dr PD Dexter	5	284	284
Dr RC Lubisi	7	118	118
Ms R Matenche	7	133	133
Maj Gen. (Ret) LC Pepani	7	102	102
Ms F Skweyiya-Gushu	7	112	112
Mr TM Sukazi	7	97	97
Ms PN Mashinini	7	104	104
		2,706	**2,706**

Non-Executive Audit Committee Member, not member of Board of Directors - 2022		Fees and committee remuneration	Total
DW Matebula	13	89	89

Executive committee members

2022

Name		Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Ms JL Mzili	10	704	1,324	66	105	2,199
Prof N Mkaza		2,482	584	18	380	3,464
Adv. N Mvambo		2,078	485	18	325	2,906
Adv. NB Senne		2,210	562	124	358	3,254
Dr HL Jansen van Rensburg		1,880	333	110	333	2,656
MP Teffo		2,165	452	134	364	3,115
		11,519	**3,740**	**470**	**1,865**	**17,594**

	Note(s)	2022 '000	2021 '000

39. Related parties (continued)

2021

Name	Note(s)	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Ms JL Mzili		2,112	459	198	318	3,087
Prof N Mkaza		2,445	664	18	372	3,499
Mr JS Mkwanazi	8	2,916	1,363	89	451	4,819
Adv. N Mvambo		1,905	462	114	305	2,786
Adv. NB Senne		2,176	522	123	350	3,171
Dr HL Jansen van Rensburg		1,851	317	109	354	2,631
MP Teffo	9	178	-	11	30	219
		13,583	**3,787**	**662**	**2,180**	**20,212**

Notes:

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, acting allowance and resettlement allowance as well as other long-term service benefits.

3. Retirement and other contributions 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: Mr JG Grobler and Adv. SP Mbada.

5. Dr PD Dexter was appointed as the Chairperson of the Board and Mr MS Motimele appointed as the Deputy Chairperson with effect from 1 December 2020.

6. Board members whose term came to an end effective 31 October 2020.

7. New members of the Board of Directors appointed with effect from 1 December 2020.

8. Mr JS Mkwanazi retired from Armscor effective 31 March 2021.

9. Mr MP Teffo was appointed to the executive committee from 1 March 2021.

10. Ms JL Mzili retired from Armscor effective 31 July 2021.

11. Maj Gen. (Ret) LC Pepani resigned as a member of the Board of Directors effective 22 February 2022.

12. Mr MS Motimele's term came to an end effective 30 April 2022.

13. Mr DW Matebula was appointed as an independent member of the Audit Committee with effect from 1 May 2021.

40. Change in estimate

Property, plant and equipment

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 R4 693 thousand (2021: R4 585 thousand decrease).

	Note(s)	2022 '000	2021 '000

41. Fruitless and wasteful expenditure

Opening balance as previously reported		50	973
Opening balance as restated		**50**	**973**
Add: Amount relating to current financial year		125	6
Less: Amounts written-off or reversed		(12)	(929)
Closing balance		**163**	**50**

Expenditure amounting to R125 thousand (2021: R6 thousand) was recorded during the financial year and is deemed to be fruitless and wasteful. The expenditure was as a result of penalties charged (R7 thousand) and expenditure with no corresponding benefit to the organisation (R118 thousand). Investigations are underway.

Additionally, expenditure of R12 thousand (2021: R929 thousand) related to previous years was written off after completion of the investigation. As the matter occurred due to COVID-19 pandemic restrictions, no official could be found responsible.

42. Irregular expenditure

Opening balance as previously reported		41,519	34,603
Opening balance as restated		**41,519**	**34,603**
- Amount relating to prior financial years		4,962	1,245
- Amount relating to current financial years		6,516	5,682
Less: Amounts condoned		-	(11)
Less: Amounts written-off or reversed (relating to prior financial years)		(26,159)	-
Closing balance		**26,838**	**41,519**

Details of irregular expenditure

Irregular expenditure of R11 478 thousand (2021: R6 927 thousand) was noted during the year. R8 348 thousand (2021: R5 321 thousand) relates to cost which is deemed to be irregular. The R8 348 cost was treated as a single source without the required approval from National Treasury and the prior year cost of R5 321 were incorrectly approved as sole source during the previous financial year. R70 (2021: R Nil) relates to procurement that occurred without following the competitive bidding process.
R2 602 thousand (2021: R337 thousand) related to contract extensions above the National Treasury threshold and not following competitive bidding process and R458 thousand (2021: R24 thousand) relates to services that were provided by a non-tax complaint service provider. Consequence management was taken on responsible officials in line with internal processes and some of the matters disclosed above are still under investigation which are at an advanced stage of completion.

Irregular expenditure under determination

Other instances of irregular expenditure have been identified in the current year which are currently under investigation. The value is still being determined, whilst disciplinary action has been taken against responsible officials.

	Note(s)	2022 '000	2021 '000

43. Segment information

General information

Identification of segments

The entity activities are very broad, and are undertaken in a wide range of different geographical areas with different socioeconomic characteristics. To enable efficient and effective delivery on the strategy, the Executive Management structure sub-divided the group into three categories, namely: Armscor Corporate, Dockyard and Research & Development. In establishing the segments to report on, management organised the financial information according to the three existing structures. Management uses these same segments for determining service level agreement objectives.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

The Medical Benefit Fund does not meet the definition of a segment, however the Fund is consolidated as part of the Group as it is deemed not to meet the requirements of a planned asset in terms of GRAP 25.

Measurement basis for inter-segment transactions:

Reported segments are measured based on management reporting for purposes of making decisions about allocating resources to the segment and assessing its performance.

The segments were structured such that the totals of revenues, reported surplus/(deficit), assets, liabilities and other material items corresponds to figures recognised in the Annual Financial Statements, except for inter-divisional transaction and balance eliminations. Therefore, a reconciliation of the segment figures to the Annual Financial Statements is not necessary.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment	Goods and/or services
Armscor Corporate	Armscor renders acquisition management to the DOD and the SANDF throughout the life cycle of a product.
Dockyard	Management of the Armscor Dockyard as a strategic facility of the SA Navy to be available for service provision to the DOD.
Research and Development	Manages the research, test and evaluation strategic facilities of Armscor and manufacture respiratory equipment, which has the DOD as its primary client.

Figures in Rand Thousands

43. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
Revenue					
Revenue from non-exchange transactions	864,015	255,987	117,338	-	1,237,340
Revenue from exchange transactions	180,598	17,073	216,595	(39,959)	374,307
Deferred income recognised	3,512	15,980	-	-	19,492
Interest revenue	103,118	2,539	9,905	(34,695)	80,867
Fair value adjustment	(26,400)	-	(22,532)	-	(48,932)
Total segment revenue	**1,124,843**	**291,579**	**321,306**	**(74,654)**	**1,663,074**
Entity's revenue					**1,663,074**
Expenditure					
Salaries and wages	674,867	258,449	266,720	118	1,200,154
Other expenses	216,791	42,536	157,821	(52,251)	364,897
Depreciation and amortisation	54,256	11,939	29,912	-	96,107
Impairment losses reversed/(recognised)	(1,931)	-	1,603	-	(328)
Total segment expenditure	**943,983**	**312,924**	**456,056**	**(52,133)**	**1,660,830**
Medical benefit fund total revenue					18,919
Medical benefit fund total expenditure					(8,643)
Entity's surplus (deficit) for the period					**12,520**

Figures in Rand Thousands

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
43. Segment information (continued)					
Assets					
Current assets	677,480	38,124	115,370	(116,262)	714,712
Non-current assets	1,902,284	33,075	439,574	(41,100)	2,333,833
Investment in joint venture	100	-	-	(100)	-
Total segment assets	**2,579,864**	**71,199**	**554,944**	**(157,462)**	**3,048,545**
Medical benefit fund assets					195,087
Total assets as per Statement of financial position					**3,243,632**
Liabilities					
Current liabilities	275,633	56,849	137,638	(128,749)	341,371
Non-current liabilities	127,175	190,407	58,951	(10,838)	365,695
Total segment liabilities	**402,808**	**247,256**	**196,589**	**(139,587)**	**707,066**
Medical benefit fund liabilities					**7,104**
Total liabilities as per Statement of financial position					**714,170**

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000
Other information			
Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)	32,191	14,577	21,001

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Figures in Rand Thousands

43. Segment information (continued)

Segment surplus or deficit, assets and liabilities 2021

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
Revenue					
Revenue from non-exchange transactions	732,125	244,179	99,476	-	1,075,780
Revenue from exchange transactions	122,341	26,633	283,985	(46,426)	386,533
Deferred income recognised	4,891	32,069	-	586	37,546
Interest revenue	83,493	2,358	10,638	(13,061)	83,428
Fair value adjustment	3,460	-	-	-	3,460
Total segment revenue	**946,310**	**305,239**	**394,099**	**(58,901)**	**1,586,747**
Entity's revenue					**1,586,747**
Expenditure					
Salaries and wages	655,129	226,806	241,344	96	1,123,375
Other expenses	132,059	50,647	181,678	(63,903)	300,481
Depreciation and amortisation	55,471	9,870	28,818	-	94,159
Impairment losses reversed/(recognised)	(29,799)	-	767	-	(29,032)
Total segment expenditure	**812,860**	**287,323**	**452,607**	**(63,807)**	**1,488,983**
Total segmental surplus/(deficit)					**97,764**
Medical benefit fund total revenue					37,377
Medical benefit fund total expenditure					(10,874)
Entity's surplus (deficit) for the period					**124,267**
Assets					
Current assets	891,195	53,073	213,581	(230,712)	927,137
Non-current assets	1,962,439	30,387	524,925	(41,124)	2,476,627
Investment in joint venture	100	-	-	(100)	-
Total segment assets	**2,853,734**	**83,460**	**738,506**	**(271,936)**	**3,403,764**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

Figures in Rand Thousands	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
43. Segment information (continued)					
Medical benefit fund assets					185,105
Total assets as per Statement of financial position					**3,588,869**
Liabilities					
Current liabilities	405,870	62,847	143,148	(276,577)	335,288
Non-current liabilities	126,733	161,479	35,812	-	324,024
Total segment liabilities	**532,603**	**224,326**	**178,960**	**(276,577)**	**659,312**
Medical benefit fund liabilities					7,397
Total liabilities as per Statement of financial position					**666,709**

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000
Other information			
Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)	9,776	20,848	25,791

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

44. Contractual commitments

Projected outstanding commitments in respect of orders placed for expected deliveries	158,528	247,096

Operating related contractual commitments which may arise out of these contracts are covered in full by means of cash reserves. In other cases, cover is obtained by means of back-to-back orders amounting to R26,589 thousand (2021: R112 740 thousand). Capital contractual committments is further disclosed in detail as per note 45.

	Note(s)	2022 '000	2021 '000

44. Contractual commitments (continued)

In the previous financial year, the disclosed amount for contractual commitments was restated from previous incorrect amount of R201 510 thousand to an amount of R247 096 thousand. This restatement was as a result of the incorrect exclusion of some contractual commitment amounts as well as the exclusion of the capital commitment amounts in the total contracted commitments. Refer to the restatement note 48.

45. Capital commitments

	2022	2021
Authorised capital expenditure		
Capital expenditure approved		
Property, plant and equipment	64,726	12,024
Intangible assets	8,181	2,495
	72,907	**14,519**

The committed expenditure relates to plant and equipment and computer software, and will be financed with cash reserves and funds internally generated. Capital expenditure approved is included under contracted commitments as per note 44 for the current finacial year.

In the previous financial year, the disclosed amount for capital commitments was restated from previous incorrect amount of R13 546 thousand to an amount of R14 519 thousand. This restatement was as a result of the incorrect exclusion of some contractual capital commitment amounts. Refer to the restatement note 48.

46. Accounting by principals and agents

Details of the arrangment(s) is/are as follows:

Transactions with the DOD

Armscor receives its mandate 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), in terms of which the Corporation is empowered to meet: 1) the defence matériel requirements of the DOD effectively, efficiently and economically; and 2) the defence technology, research, development, analysis, test and evaluation requirements of the DOD effectively, efficiently and economically.

To execute its mandate, Armscor received a Government grant from the State through the Department of Defence (DOD) as well as secondary grant (in terms of separate Memorandum of Agreements) for services rendered to the DOD.

The secondary grants received, based on Memorandum of Agreements (MOA) 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.

In return for the grants received, Armscor contracts with third parties as an agent acting on behalf/for the benefit of the DOD.

46. Accounting by principals and agents (continued)

Defence Transformative Enterpise Development Programme (DEFTED)

The DEFTED programme is a ministerial programme approved by the Minister of Defence and Military Veterans. The programme seeks to address the lack of transformation within the SA Defence Sector and promote the inclusion of black owned SMMEs in the defence economy. The programme aims to support SMME capability development in various domains such as the Radar, Electronic Warfare and Maritime domains, which are strategic and sovereign capabilities according to Chapter 15 of the SA Defence Review of 2015. Armscor as the Principal agent of the DOD, entered into third party contracts with the SMMEs on behalf of the DOD. The DOD provided funding for the DEFTED programme through Armscor via MOA, which in turn was allocated to the SMMEs for Technology Development and Enterprise Development. Armscor then charges the DOD a management fee to manage and administer the programme.

Defence Engineering and Science University Programme (DESUP)

The DESUP programme is a ministerial programme approved by the Minister of Defence and Military Veterans. The programme aims to support qualifying students to further their studies especially in the field of engineering and science.
Armscor as the Principal agent of the DOD, sponsors students with grants and bursaries to study at different tertiary institutions as well as providing opportunities for possible vacation work to them.

Licence agreements

Armscor enters into licencing agreements with third party on behalf of the DOD whereby Armscor grants third parties a nonexclusive licence to use licenced rights of the DOD for specific transactions/projects.

The operating procedures and terms and condition of the arrangements with the DOD are no more or no less favourable than the terms it would use to conclude transactions with another entity or person. There were no changes to the terms and condition of the arrangement that occurred during the reporting period.

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity’s own financial statements

The amount of liabilities that were incurred on behalf of the DOD and recognised in the Armscor's own financial statements is R17 786 thousand (2021: R5 836 thousand).

No assets held on behalf of the DOD have been recognised in the Armscor's own financial statements except for cash received on behalf of DOD amounting to R17 786 thousand (2021: R5 836 thousand).

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R Nil - thousand (2021: R4 383 - thousand) relating to the DEFTED programme.

Liabilities and corresponding rights of reimbursement recognised as assets

Additional information

Revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangements.

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

	2022 '000	2021 '000

46. Accounting by principals and agents (continued)

Reconciliation of the carrying amount of payables

	2022 '000	2021 '000
Payable incurred on behalf of DOD		
Opening balance	5,836	7,534
Cash paid on behalf of the principal	11,950	-
Amounts transferred to the principal	-	(1,698)
	17,786	**5,836**
All categories		
Opening balance	5,836	7,534
Cash paid on behalf of the principal	11,950	-
Amounts transferred to the principal	-	(1,698)
	17,786	**5,836**

47. 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 (2021: R Nil).

	2022 '000	2021 '000
Reconciliation of entity profits/(deficits) to Group profit/(deficit)		
Entity surplus/(deficit) after tax	12,520	124,267
Joint Venture transaction	-	-
Group surplus/(deficit)	**12,520**	**124,267**

Financial position differences:	**Entity '000**	**Group '000**
Investment in Joint Venture	100	-
Equity	2,529,462	2,922,160

48. Restatements

Presented below are those items contained in the annual financial statement that have been affected by prior-year adjustments:

48.1 Prior period errors

48.1.1 Contractual commitments

In the previous financial year, the disclosed amount for contractual commitments was restated from previous incorrect amount of R201 510 thousand to an amount of R247 096 thousand. This restatement was as a result of the incorrect exclusion of some contractual commitment amounts in the total contracted commitments. Refer to note 44.

In the previous financial year, the disclosed amount for capital commitments was restated from previous incorrect amount of R13 546 thousand to an amount of R14 519 thousand. This restatement was as a result of the incorrect exclusion of some contractual capital commitment amounts. Refer to note 45.

	Note(s)	2022 '000	2021 '000

48. Restatements (CONTINUED)

48.2 The detailed impact of the restatements of the 2021 year

Notes to the Annual Financial Statements (2021)

	Note	As previously reported	Correction of error	Restated
Contractual commitments		201,510	45,586	247,096
Capital commitments		13,546	973	14,519
		215,056	**46,559**	**261,615**

49. Events after the reporting date

Fruitless and wasteful expenditure

Subsequent to the reporting date, investigations in regards to expenditure incurred on behalf of the DOD that was previously reported in the prior year as fruitless expenditure were concluded and it was determinded that the expenduture was not a fruitless expenditure but a loss for the DOD. The value of the loss amounted to R4 571 thousand.

Irregular expenditure

Subsequent to the reporting date, irregular expenditures which were reported in the prior year as not approved by the relevant authority were subsequently approved and therefore were written off. The total expenditure written off amounted to R23 919 thousand.

	Note(s)	2022 '000	2021 '000

Supplementary Information (unaudited)

1. Total value of acquisition activities

Government grant for operating expenditure is obtained to undertake acquisition actions. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

Heading	**2022 '000**	**2021 '000**	**2020 '000**	**2019 '000**	**2018 '000**
Department of Defence					
- Special Defence Account	2,687,289	2,879,000	3,989,000	3,782,000	4,458,000
- General Defence Account	1,389,563	1,801,000	1,801,000	1,820,000	2,085,000
Other	2,700	35,500	46,000	78,000	21,000
	4,079,552	**4,715,500**	**5,836,000**	**5,680,000**	**6,564,000**

2. SDA committed orders

Armscor enters into contracts with suppliers for acquisition related projects in the execution of its mandate, and as an agent of the Department of Defence. The contracts are settled utilising funds from the Special Defence Account, which is the primary financing tool for the acquisition of defence matériel.

The allocation of funds by the National Treasury to the Special Defence Account continues to decline at a level that puts the ability to fund existing and committed programmes at risk. The Department of Defence is, however, in discussion with the National Treasury for additional funding. Armscor does not place any order for the acquisition of defence matériel without confirmation from the Department of Defence that the necessary funding is available, and is also further reviewing options available in order to minimise the risk for Armscor and the Department of Defence on a continuous basis.

SECTION 6
ACRONYMS & ABBREVIATIONS

Gateway to defence solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

ACRONYMS AND ABBREVIATIONS

6.1 LIST OF ACRONYMS AND ABBREVIATIONS

Armscor	Armaments Corporation of South Africa SOC (Ltd)
AGSA	Auditor-General South Africa
AGM	Annual General Meeting
AU	African Union
AMD	South African Aerospace Maritime and Defence Industries Association
ATNS	Air Traffic and Navigation Services
B-BBEE	Broad-Based Black Economic Empowerment
BOE	Black Owned Enterprise
BWOE	Black Women Owned Enterprise
CAE	Chief Audit Executive
CFO	Chief Financial Officer
CEO	Chief Executive Officer
COTS	Commercial off-the-shelf
COVID-19	Coronavirus Disease 2019
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CWC	Chemical Weapons Convention
DCS	Department of Correctional Services
DESUP	Defence Engineering and Science University Programme
DERIs	Defence Evaluation and Research Institutes
DEPS	Defence Equipment Personnel Support
DEFTED	Defence Transformative Enterprise Development
DDSI	Defence Decision Support Institute
DED	Docking and Essential Defects
DIF	Defence Industry Fund
DIP	Defence Industrial Participation
DOD	Department of Defence
DPE	Department if Public Enterprises
DMD	Defence Matériel Division
DOD APP	Department of Defence: Annual Performance Plan
DPME	Department of Planning, Monitoring and Evaluation
DPWI	Department of Public Works and Infrastructure
DR	Doctor
dtic	Department of Trade, Industry and Competition
DRDB	Defence Research and Development Board
ERGOTECH	Ergonomics Technologies
EME	Exempted Micro Enterprise
EE	Employment Equity
EXCO	Executive Committee
Etc.	Et cetera
FA	Financial Authority
Flamengro	Fluid and Mechanical Engineering Group
FMEA	Failure Mode and Effect Analysis
GBADS	Ground Based Air Defence System
GRAP	Generally Recognised Accounting Practice
GQA	Government Quality Assurance
GDA	General Defence Accounts
HR	Human Resources
HQ	Head Office
HSV	Hydrographic Survey Vessel
IP	Intellectual Property
i.e	id est
ICT	Information and Communication Technology
ISO SHE	International Organisation for Starndardisation Safety Health and Environment
IT	Information Technology
ITSCM	Information Technology Service Continuity Management
ISPPIA	International Standards of Professional Practice in Internal Audit
IMT	Institute for Maritime Technology
IPMAD	Intellectual Property Management Division
ISO	International Organisation for Standardisation
ITSCM	Information Technology Service Continuity Management

ACRONYMS AND ABBREVIATIONS

JCPS	Justice Crime Prevention and Security
KW	Kilowatts
MMIPV	Multi-Mission Inshore Patrol Vessel
MMOPV	Multi-Mission Offshore Patrol Vessel
MOU	Memorandum of Understanding
MoA	Memorandum of Agreement
MTSF	Medium Term Strategic Framework
MTEF	Medium Term Expenditure Framework
MRO	Maintenance, Repair and Overhaul
NCACC	National Conventional Armaments Control Committee
NDP	National Development Plan, Vision 2030
NDIC	National Defence Industry Council
NGP	National Growth Path
No.	Number
OEM	Original Equipment Manufacturer
OPCW	Organisation for the Prohibition of Chemical Weapons
OPDEF	Operational Defect
Op	Operation
PFMA	Public Finance Management Act (Act No. 1 of 1999)
PPGI	Public-Private Growth Initiative
QAIP	Quality Assurance and Improvement Program
R&D	Research and Development
Ret.	Retired
RFB	Request for Bid
RISDP	Regional Indicative Strategic Development Plan
RSA	Republic of South Africa
SA	South Africa
SAAF	South African Air Force
SHE	Safety, Health and Environment
SHEQ	Safety, Health, Environment and Quality
STEM	Science, Technology, Engineering and Mathematics
SABS	South African Bureau of Standards
SADC	Southern African Development Community
SADI	South African Defence Industry
SAMHS	South African Military Health Services
SAPS	South African Police Services
SANDF	South African National Defence Force
SANHO	South African Navy Hydrographic Office
SCM	Supply Chain Management
SDA	Special Defence Account
SDG	Sustainable Development Goal
SDIP	Service Delivery Improvement Plan
SDP	Strategic Defence Packages
SIU	Special Investigating Unit
SLA	Service Level Agreement
SME	Small-and-Medium Enterprises
SMMEs	Small, Medium, and Micro-sized Enterprises
SOC	State Owned Company
SONA	State of the Nation Address
Sps	Strategic Plans
TDPs	Talent Development Programmes
TEMANI	Technology Management, Analysis and Industrialisation
T&E	Test and Evaluation
UN	United Nations
UBRD	Ultrasonic Broken Rail IDetector
YTD	Year to date
VS	Versus
VSP	Voluntary Severance Package