



ARMSCOR
Armaments Corporation of South Africa SOC Ltd

Annual Report 2016/17



GATEWAY TO DEFENCE SOLUTIONS



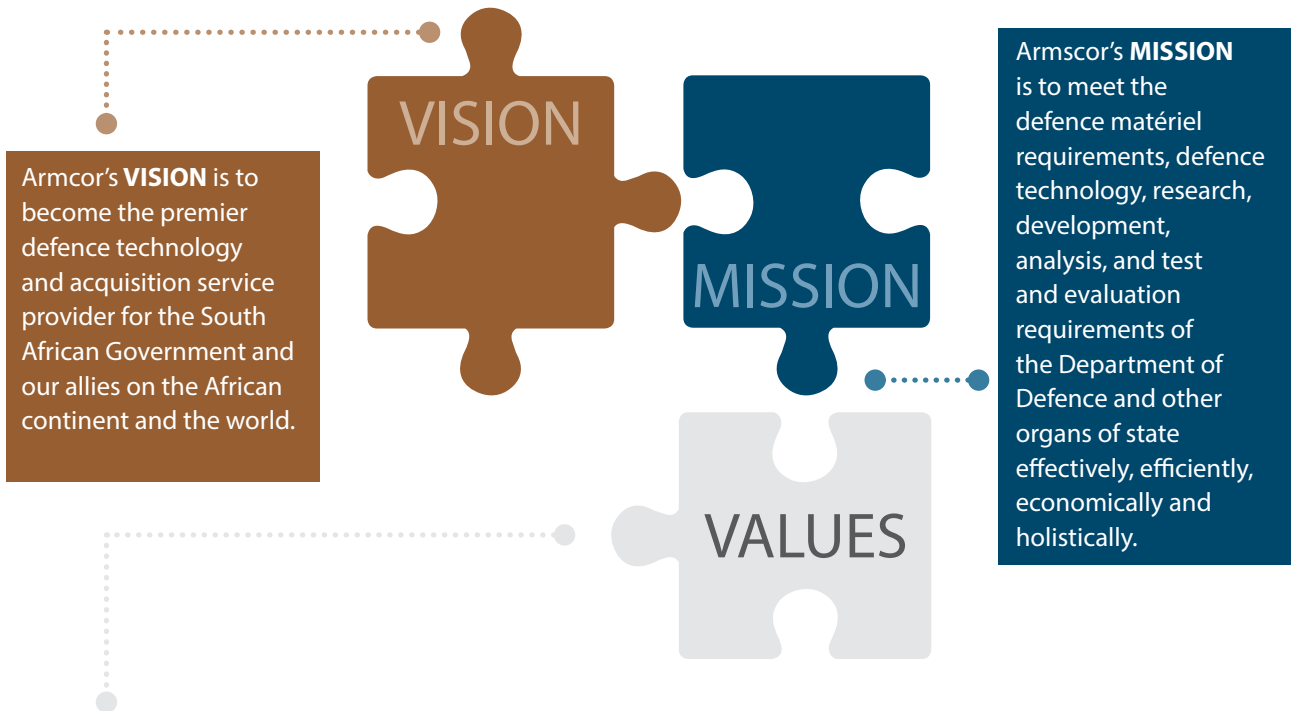
GATEWAY TO
DEFENCE
SOLUTIONS

WHO WE ARE

The Armaments Corporation of South Africa SOC Limited (Armcor) is established in terms of the Armaments Corporation of South Africa Limited Act (Act 51 of 2003), as amended (called the Armcor Act). It is therefore a state-owned company (SOC) as contemplated in the Companies Act of 2008. Furthermore, it is listed as a Schedule 2 Public Entity in terms of the Public Finance

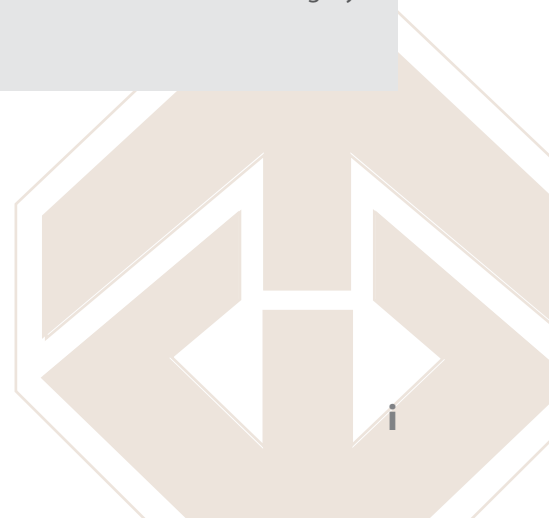
Management Act (Act 1 of 1999), as amended (the PFMA). It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies Act of 2008.

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

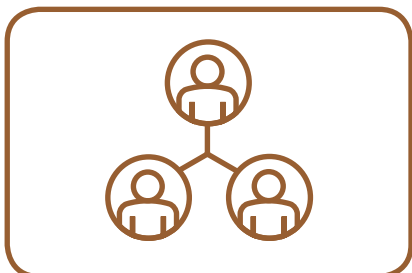


Armcor's **VALUES** are the building blocks of the manner in which it conducts its business. Armcor believes in the highest standards and is committed to transformation, transparency and accountability. We, members of Armcor, pledge commitment to the following values:

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



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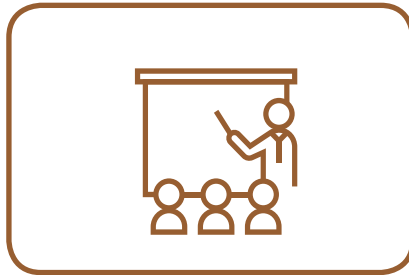
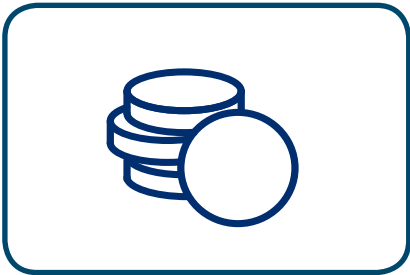
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01 GENERAL INFORMATION

CORPORATE PROFILE

WHAT WE DO

The Armscor Act provides that

- (1) The Corporation must:
 - a) acquire such defence matériel on behalf of the Department of Defence as the Department may require;
 - b) manage such technology projects as may be required by the Department of Defence;
 - c) establish a programme management system in support of the acquisition and technology projects contemplated in (a) and (b);
 - d) provide for a quality assurance capability in support of –
 - (i) the acquisition and technology projects contemplated in (a) and (b); and
 - (ii) any other service contemplated in this section required by the Department of Defence;
 - e) maintain a system for tender and contract management regarding defence matériel, and if required, in a service level agreement or if requested in writing by the Secretary for Defence, the procurement of commercial matériel;
 - f) dispose of defence matériel in consultation with the person who originally manufactured the matériel;
 - g) establish a compliance administration system for the Department of Defence as required by applicable international law, the National Convention Arms Control Act, 2002 (Act 41 of 2002), and the Non-Proliferation of Weapons of Mass Destruction Act, 1993 (Act 87 of 1993);
 - h) support and maintain such strategic and essential defence industrial capabilities, resources and technologies as may be identified by the Department of Defence;
 - i) provide defence operational research;
 - j) establish a defence industrial participation programme management system;
 - k) provide marketing support to defence-related industries in respect of defence matériel, in consultation with the Department of Defence and the defence-related industries in question;
 - l) manage facilities identified as strategic by the Department of Defence in a service level agreement; and
 - m) maintain such special capabilities and facilities that are regarded by the Corporation as not commercially viable, but which may be required by the Department of Defence for security or strategic reasons.
- (2) a). The Corporation may, with the approval of the Minister –
 - (i) exploit such commercial opportunities that may arise from the Corporation's duty to acquire defence matériel or to manage technology projects;
 - (ii) procure commercial matériel on behalf of any organ of state, at the request of the organ of state in question, and
 - (iii) subject to the National Conventional Arms Control Act of 2002 (Act 41 of 2002), the Regulation of Foreign Military Assistance Act, 1998 (Act 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act, 1993 (Act 87 of 1993), perform any function which the Corporation may perform for or on behalf of the Department of Defence in terms of this Act or on behalf of any sovereign State.
- b) The Minister may impose such conditions in respect of the performance of a function as may be necessary in the national interest.

OUR OBJECTIVES

The objectives of the Corporation are:

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

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

Armscor adheres to the principles of good corporate

GOVERNANCE

governance enshrined in the Public Finance Management Act (Act 1 of 1999) as amended (the PFMA). The observance of these principles ensures that Armscor maintains the integrity of its operations, thus gaining credibility from and confidence of its important stakeholders.

Good corporate governance and stakeholder confidence are fundamental elements in determining the nature of the relationship between Armscor, its shareholder represented by the Minister of Defence and Military Veterans, the defence industry, and the South African public as a whole.

To ensure proper governance, there are structures that provide the lead and serve as a link between the Board and Management. These structures are the Company Secretariat, Internal Audit and Corporate Compliance.

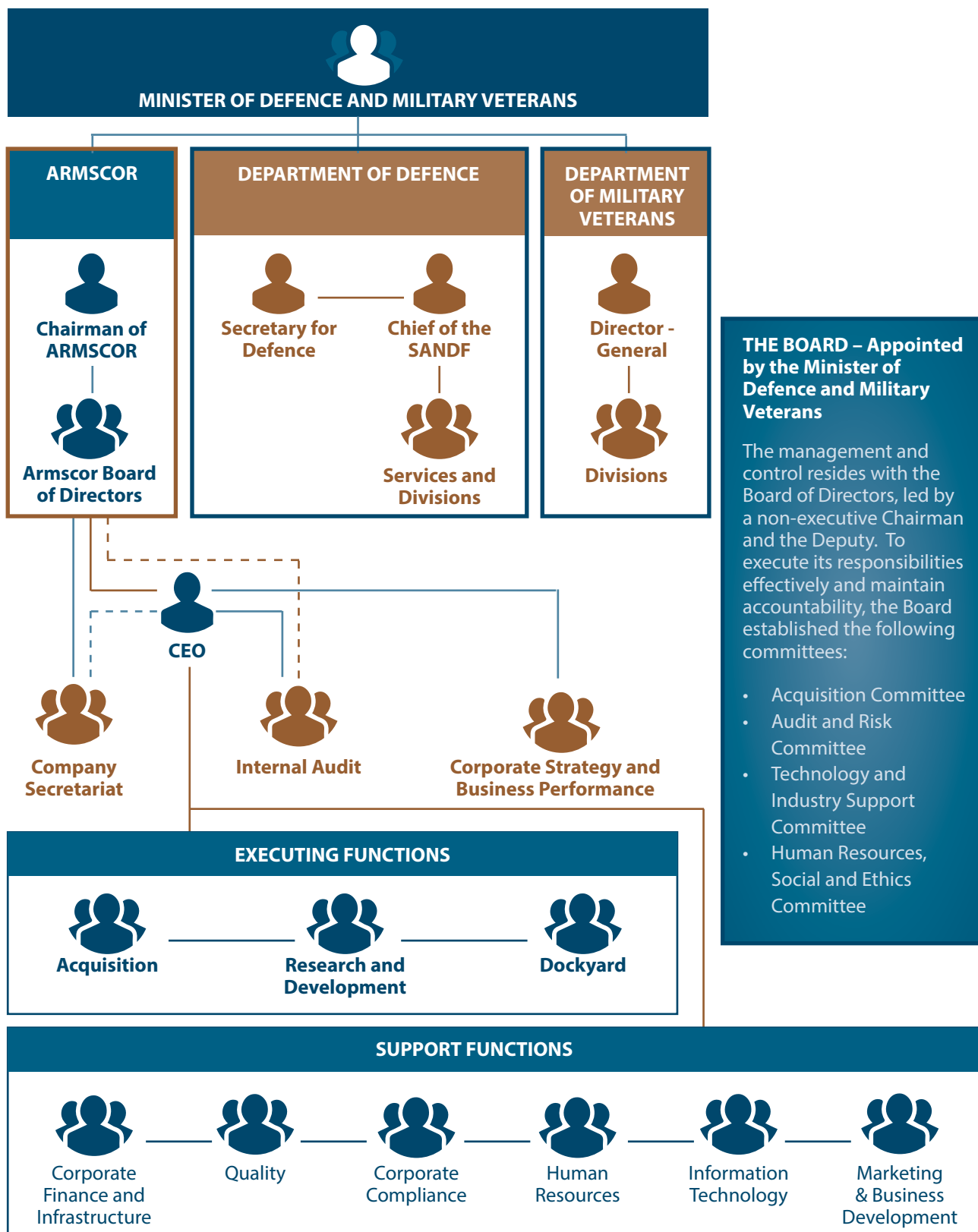
Internal Audit, as a critical pillar of governance, is taking a

lead role in the combined assurance model to coordinate the assurance efforts, so as to ensure adequate coverage of key strategic risks facing the organisation.

The objective of the internal auditing function is to provide independent, objective assurance and consulting services, designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. In this regard, Internal Audit reports functionally to the Audit and Risk Committee of the Board of Directors, and administratively to the CEO.



ORGANISATIONAL REPORTING STRUCTURE (AS AT 31 MARCH 2017)



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

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

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

THE BOARD OF DIRECTORS



CHAIRMAN OF THE ARMSCOR BOARD

VICE ADMIRAL (RET) R J MUDIMU

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

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

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



DEPUTY CHAIRPERSON

AMBASSADORT SKWEIYIYA

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

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

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



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

ADV V L DE LA HUNT

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

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

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

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



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

DR M B KHANYILE

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

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



NON-EXECUTIVE DIRECTOR AND CHAIRPERSON OF THE ACQUISITION COMMITTEE

MR R M VOKWANA

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

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

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



NON-EXECUTIVE DIRECTOR AND CHAIRPERSON OF THE TECHNOLOGY AND INDUSTRY SUPPORT COMMITTEE

MR N M TYIBILIKA

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

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

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

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



EXECUTIVE BOARD MEMBER AND CHIEF EXECUTIVE OFFICER

MR K P E WAKEFORD

His academic qualifications include:

- BA
- BA Hons

Areas of expertise: Financial Management and Strategic Management. His appointment is linked to his position as Chief Executive Officer.



EXECUTIVE BOARD MEMBER AND CHIEF FINANCIAL OFFICER

MR J G GROBLER

His academic qualifications include:

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

Areas of expertise: Financial Management and Corporate Governance.



COMPANY SECRETARY

ADV N B SENNE

His academic qualifications include:

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

Areas of expertise: Governance, Legal and Strategy.

EXECUTIVE MANAGEMENT



CHIEF EXECUTIVE OFFICER

MR K P E WAKEFORD

His academic qualifications include:

- BA
- BA Hons

Areas of expertise: Financial Management and Strategic Management.



CHIEF FINANCIAL OFFICER

MR J G GROBLER

His academic qualifications include:

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

Areas of expertise: Financial Management and Corporate Governance.



GENERAL MANAGER: ACQUISITION

MR J S MKWANAZI

His academic qualifications include:

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

Areas of expertise: Strategic Management, Operations Management, Project Management, Quality Management and Acquisition.



GENERAL MANAGER: RESEARCH AND DEVELOPMENT

PROF M N MKAZA

His academic qualifications include:

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

Areas of expertise: Coaching, Emotional Intelligence, Strategic leadership and management and Management in the Science and Technology environment.



GENERAL MANAGER: DOCKYARD

M R T T GODUKA

His academic qualifications include:

- BEng (Mechanical)
- Post Graduate Diploma in Business Management

Areas of expertise: Operations Management, Engineering Management and Strategic Management.



GENERAL MANAGER: QUALITY

M R G O RADEBE

His academic qualifications include:

- Master of Aviation Safety, Aircraft Airworthiness
- BSc (Hons) (Computer Science)
- Certificate in Quality Management
- Certificate in Project Management
- ITIL
- Executive Development Programme (EDP)

Areas of expertise: Quality Management, Software Quality and Lifecycle Process Management, Configuration Management, Aircraft & flight safety critical systems certification, Aviation Software Design Assurance and IT Governance.



GENERAL MANAGER: CORPORATE COMPLIANCE

A D V C V V RAMPHELE

Her academic qualifications include:

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

Areas of expertise: Corporate Compliance and Risk Management, Corporate Law, and Corporate Governance.





GENERAL MANAGER: HUMAN RESOURCES

MR S P MBADA

His academic qualifications include:

- BJuris
- BA Hons
- MAP
- LLB

Areas of expertise: Strategic Management, HR Management, IR Management and Training Management.



CHIEF INFORMATION OFFICER

MR N M MABASO

His academic qualifications include:

- BSc (Computer Science and Applied Mathematics)
- MBA
- AIIM and ITIL certificates

Areas of expertise: Innovation, Knowledge Commons, Strategic Management of Technology.

GENERAL MANAGER: MARKETING AND BUSINESS DEVELOPMENT

MS J L MZILI

Her academic qualifications include:

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

Areas of expertise: Strategic Management, Strategic Marketing, Business Development and Financial Management.



02 FROM OUR LEADERSHIP

CHAIRMAN'S REPORT



This Annual Report represents a significant milestone in delivering the objectives of the Armscor Board, of which I have the privilege and honour to lead for the next three (3) years. It is a culmination of the work that we started in 2014, which was the beginning of our previous term of Office.

We take comfort in the fact that the Honourable Minister of Defence and Military Veterans, Ms. Nosiviwe Mapisa-Nqakula, has seen it fit to renew our term of Office. It is a tribute to our excellent working relations that we have been granted a further opportunity to author a new chapter for Armscor and the defence industry in general.

We are also pleased that in this new term of Office, we have been blessed with three (3) new members as part of our Board. This will not only ease the burden that we have had to bear in the past three (3) years, but it will also enrich our interactions as a Board for the benefit of Armscor.

Let us immediately stress that none of this could have been achieved without the Chief Executive Officer of Armscor, Mr Wakeford, and his team of dedicated executives. It is they who see to the daily achievement of the goals which they have set for themselves, under our guidance. Yes, we are not a disinterested Board, we observe, inquire, debate and finally reach agreement on what needs to be done. But ultimately, the pace, rhythm and innovation that accompanies this lies with the employees of Armscor. It is thanks to them that we

consistently receive the results that we do, underpinned by good corporate governance.

It is in this spirit that we highlight the following areas of success during the year under review:

- Spearheading the drafting of the ground-breaking Defence Industry Charter, which is to be gazetted by the Minister of Trade and Industry. This will finally provide a regulated way of transforming the defence industry and bringing in new entrants in support of our national imperatives.
- Awarding bursaries to 116 students that are furthering studies in Technical and Engineering, Information and Computer Sciences during the year under review.
- Concluding a co-existence agreement with the Square Kilometre Array (SKA) in the Northern Cape, thereby preserving many years of investment and technological innovation at the Alkantpan Testing range.
- Obtaining the mandate for the secure accommodation of one of our Arms of Service at Gerotek. It is a new area of work for us and we dare not disappoint.

None of this could have been achieved without our stakeholders. Firstly, our shareholder and executing authority, the Minister of Defence and Military Veterans, who has consistently provided us with all the necessary guidance and legal permissions to implement our plans. Let this spirit permeate our dealings for the upcoming three (3) years of service to the people of South Africa.

We are also indebted to the Parliamentary Portfolio Committee on Defence and Military Veterans, where we have received support and guidance on our corporate plans, and where our budgetary allocations have been given additional impetus.

Our close working relations with the Association for Maritime and Defence Industries has allowed us to chart a new funding path for aspirant defence industry participants, through the creation of a Defence Industry Fund. We have covered appreciable ground in the setting up this fund, and we hope to conclude the work during the 2017/18 financial.

A handwritten signature in black ink, appearing to read 'J Mudimu', written over a horizontal line.

Vice Admiral (Ret) J Mudimu
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT



INTRODUCTION

I am pleased to be entrusted with a key role to strategically provide direction in this organisation, and to guide the team in delivering on its mandate. To the Chairman and Board of Directors, I am grateful for the pivotal role they have played in steering this national asset, Armscor, in a direction in which it has fulfilled its mandate with professionalism, dedication and integrity. We hold our heads high in the knowledge that the organisation's commitment to good governance, efficiency and professionalism was being monitored by a Board that maintained the highest ethical standards and degree of vigilance.

The Executive Management worked hard in meeting their performance targets. Their professional attitudes, coupled with the dedication demonstrated daily in executing the organisation's strategy, whilst striving towards achieving our goals, is highly appreciated.

Armscor is a Corporation of Government for the acquisition of defence materiel, and operates within the context of a country that is undergoing continuous transformation led by the Government. The Defence environment in which Armscor operates is equally undergoing transformation, which is characterised by, amongst other things, the consolidation of the industry, the definition of niches of existence, where organisations should be focusing their respective competitive edge,

as well as the alignment and forging of partnerships in order to capitalise on each other's synergies for success. All these developments continue to pose exciting challenges for Armscor in supporting the Department of Defence and Military Veterans and the defence-related industry to achieve a pinnacle of excellence.

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

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

THE YEAR AHEAD

The political and economic global system is in flux, and we are entering a new era. This era is characterised by increasing unemployment across the globe and the growing alienation of citizens from central political decision making. This raises the risk for conflict, and more seriously, violent conflict. New role players, i.e. Russia and China, are increasingly taking centre stage. In Africa, slow progress is being made towards democratisation and economic growth, but there are some countries departing from this trend. In these countries, there is greater risk of internal conflict and subsequent migration of citizens to escape the conflict. Africa is making progress towards visa free travel across the continent, increasing the risk of migrant influx and associated xenophobic violence. The Republic of South Africa (RSA), through the South African National Defence Force (SANDF) is involved in promoting peace across the continent, in an effort to reduce conflict and increase economic development.

South Africa is in a recession, and the long term projection is that GDP growth targets shall not be achieved. Demographic trends indicate that the size of the RSA youth population will increase exponentially. A priority must be made of finding ways to increase the economic viability of those that try to enter the work environment. Although much has been achieved since the dawn of democracy, the "born free" generation is not qualitatively benefitting, and objectively, the "better life" that was promised has not materialised. A radical response to this situation is on the increase.

Armscor is looking outwards at the country and the world. Its core function continues to be the procurement agency for the SANDF, but it also strives to be an

employment creation asset for the RSA economy. The National Development Plan (NDP) identifies Small medium and micro sized enterprises (SMMEs) as key areas for development. Armscor is playing its part in this arena, and strives to increase fairness in the playing field between the established big players in defence, related industries, and the new smaller entrants.

On the internal policy front, Armscor is striving to switch from a competitive acquisition approach (winner takes all) to a collaborative approach. It is envisaged that the larger players will co-opt the smaller players to produce security solutions in projects that lend themselves to such an approach. A transfer of business skills can then take place, and small businesses can be incubated to become viable.

Armscor has provided support to the development of the National Defence Industry Strategy, and will continue to do so in the year ahead as the implementation framework unfolds. Armscor also played a role in the development of the Defence Industry Charter and Industry Fund. The Industry Fund reduces the capital limitations of the smaller defence industry player.

Armscor is striving to create employment in the RSA by increasing the probability of RSA industry members becoming service providers to United Nations activities in Africa. Armscor is registered on the United Nations (UN) supplier database and opportunities are being followed up.

SA DEFENCE REVIEW 2015

The period under review was characterised by a steady progress in the DOD in refining the detailed requirements for creating the envisioned SANDF. The demands on the national fiscus indicate that the DOD will not receive the full funding it needs to fully implement the Defence Review. During the period under review, multiple ideas to improve the efficiency of the SANDF and to define income streams that will not burden Treasury were identified and quantified. Armscor is continuously involved in supporting the SANDF with some of these cost-saving or income generating measures. One such measure aims to reduce the SANDF's expenditure on the leasing of property by providing permanent solutions within existing facilities. An example in this regard is where Armscor is the supervisory entity for migrating the Defence Intelligence Headquarters from a leased facility to a permanent Armscor owned facility that can accommodate densification. Multiple investigations are ongoing for sweating SANDF endowment properties where feasible, without the SANDF losing ownership of them.

Defence planners are creatively exploring ways of aligning the defence budget to the commitments and

consequent requirements of the SANDF. Armscor is ready to optimise such expenditure by aligning the needs of the DOD with growing the defence industry, as defined in the Defence Industry Strategy. Being a member of the National Defence Industry Council (NDIC), Armscor has already established relationships with other National Government Departments whose programmes could either support or be advantaged by such defence spending.

STRATEGIC FOCUS

Armscor's On-Time, In-Time, Towards a Sustainable Future Strategy is based on its relevance and the sustainability of the organisation, hence the focus on the commercialisation and expansion of Armscor services to a wider client base.

The first year of implementing Armscor's Strategy has proved to be a productive year, with the organisation responding positively to the ongoing challenges within Armscor. Armscor will continuously strive for improvement, particularly in effective and efficient performance against determined objectives.

The strategy has reinforced Armscor's mandate, and has brought about greater efficiency in the manner in which the Corporation operates.

ARMSCOR TURNAROUND

The organisation has elected to undergo an organisational Turnaround to achieve its strategic goals, which focus on a number of aspects, i.e.;

- acquisition reform (acquisition processes and governance procedures were streamlined in order to provide the Department of Defence (DOD) with expedited service delivery);
- transformation of procurement to be broadened to supply chain management (to improve turnaround times in the provision of non-complex, off-the-shelf acquisition and procurement) as a strategic enabler of Armscor's strategy; and
- establishment of a sustainability function.

To this end, the turnaround accord with the labour unions, NEHAWU and Solidarity, was signed. It deals with conditions of employment emanating from the turnaround process; ensuring transparency, fairness and inclusiveness of the turnaround processes; consultation and information sharing; and mechanisms to mitigate the effects of the turnaround process. The planning phase of the Turnaround implementation of the Armscor Strategy "On-Time, In-Time, Towards a Sustainable Future", was successful in outlining the current state of service delivery, and designing an improved and desirable future state. An expanded vision and mission of the organisation was generated, as well as an integrated

implementation plan for implementation in the second phase was produced. The organisational structure, processes, governance, procedures and KPIs were revised and re-aligned to deliver the expanded services.

One new initiative in the strategic objective of the financial turnaround and business re-orientation is the creation of a Sustainability Unit. In order to meet the imminent requirements of Armscor's revenue generation, a Sustainability Unit will be established. The role of the interim Sustainability Unit is to fast-track the exploitation of opportunities identified for revenue generation. To this end, the interim Sustainability Unit has engaged various international and local stakeholders such as multinational organisations, South African Defence Industry (SADI) and government departments, to promote Armscor's services and follow-up on potential clients. The progress that has been made by the interim Sustainability Unit includes brokering the sale of military equipment for Nigeria and Zambia. A United Nations (UN) Seminar was arranged to engage the UN with the intent of increasing South African Industry's participation in UN procurement spend. A Team SA approach was adopted, as the view is to support, not just Defence, but the wider SA industry and a multi-organisational approach to opportunities. This approach is flourishing as Armscor, CSIR and Denel visited the UN Head Quarters (HQ) in New York to widen South African Defence participation in UN Field support. In addition, 26 UN Defence Attaches of African countries were addressed on further relationships, and possible partnering opportunities are being explored. The Sustainability Unit is focused on building relationships with SADI and other African Nations.

In support of a financial turnaround, a framework for innovative funding solutions was developed, as well as a proposal of an expanded treasury function and structure. As part of the initiative to sweat existing assets, further engagements took place with the Defence Intelligence (DI) regarding a property development project for a Defence Headquarters, which will be built on the land at Gerotek as the anchor tenant. Armscor has been formally tasked with this project.

Armscor is focusing on, amongst others, the activities listed below:

- Multiple sustainable income streams;
- The construction of the Defence Intelligence Headquarters building at Gerotek;
- Government to government brokering services;
- Leveraging of the Endowment Properties; and
- A renewed focus on Africa and the BRICS Nations.

PERFORMANCE REVIEW

HIGHLIGHTS AND CHALLENGES

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

PARLIAMENT

This is the third year that the Department of Defence and Military Veterans (DOD&MV), as well as all Public Entities under the department successfully tabled their plans in Parliament, which means full compliance by the DOD&MV with the National Regulatory Framework.

The Presidency has selected the DOD&MV and the Public Entities (Armscor) within this department as the benchmark for Strategic Planning for all Government Departments and Public Entities.

CORPORATE GOALS

Armscor continued to maintain its high level of performance in line with its value of measurement excellence. During the period under review, the organisation met and/or exceeded all its core business targets of keeping and maintaining the International Standardisation for Organisations (ISO) standards.

The performance against the strategic goals and objectives confirms that the organisation has appropriately allocated resources to meet its mandate.

On the Armscor functions Service Level Agreement (SLA) objectives, all the acquisition projects objectives were met and exceeded, Research and Development objectives were achieved and exceeded, and for the Dockyard, all objectives were achieved. Armscor performed exceptionally well on the SLA objectives.

FUNDING OF ARMSCOR

Armscor's main funding remains by means of a transfer payment via the DOD&MV. During the year under review, Armscor's transfer payment was impacted the most by the three year reduction in the transfer payment, as directed by National Treasury, whereby it was required that Armscor should fund the shortfall allocated by National Treasury from its own reserves. This shortfall in the allocated transfer payment led to the significant deficit budgeted for the period under review.

To this extent, Armscor continued to implement cost containment and cost prioritisation in order to reduce the budgeted deficit, and to reduce the impact on its own internal resources. This led to a 39,2% reduction in the deficit budgeted for the year.

Armcor also continued with its process to investigate alternative sources of funding through leveraging of its strengths in order to supplement its existing funding, in an effort to become sustainable over the longer term, taking into consideration the pressure on the national budget and the impact on the defence budget, which is competing with other national priorities. However, this is done without affecting our main role of servicing the Department of Defence. The realisation of some of this additional revenue is, however, planned to take place over the medium to longer term, and to that extent, Armcor continues to ensure that resources are utilised efficiently and effectively.

CLEAN AUDIT

The external audit concluded by the office of the Auditor-General of South Africa (AGSA) resulted in a clean Audit report. Armcor was awarded a clean audit award and a certificate of excellence by the Auditor-General of South Africa. This follows on from Armcor's clean audit opinion, with no qualifications from the Auditor-General of South Africa for the 2014/15 financial year. The Auditor-General of South Africa audits 10 of the 21 major public entities. Of these state entities, Armcor is one of the few entities that received a clean audit opinion for the 2015/16 financial year - sustained from the previous year. An achievement well recorded in the media and acknowledged by stakeholders.

In addition, Armcor will continuously improve the risk and compliance modalities to ensure good governance and maintaining a 'clean audit' status while also improving financial and operational efficiencies.

TRANSFORMATION OF THE INDUSTRY

To accelerate economic transformation of the defence industry Armcor has:

- Spearheaded the process of developing the Defence Sector Charter, with NDIC partners;
- Successfully completed the stakeholder consultation process; and
- Advanced the Charter to a stage where it was adopted by the Charter Steering Committee, approved by the Minister of Defence & Military Veterans, and submitted to the Minister of the Department of Trade and Industry (dti).

It is envisaged that the Charter will take legal effect from 1 July 2017.

New elements that the Charter introduces to promote inclusive participation in the economy are, amongst others:

- Distinctive recognition of Military Veterans as a designated group.

- Promotion of local content beyond the designated areas by the dti.
- Provision of set asides.
- Recognition of black equity ownership at a higher level.
- Setting up of a Defence Charter Council.
- Establishment of an Enterprise Supplier Development (ESD) Fund for purposes of development.
- Establishment of a Skills Development Fund for purposes of driving the development of technical skills required in the defence industry.

SQUARE KILOMETRE ARRAY (SKA) MEMORANDUM OF AGREEMENT

The coexistence agreement of Alkantarpan with the Square Kilometre Array has been signed by the Director General of the Department of Science and Technology and the Chief Executive Officer of the National Research Foundation, the Secretary for Defence and the Chief Executive Officer of Armcor. The Memorandum of Agreement has been finalised, and has commenced from 13 April 2017.

AAD 2016

Armcor as lead partner hosted the Africa Aerospace and Defence Exhibition (AAD 2016), together with Aerospace, Maritime & Defence Industries Association of South Africa (AMD), Commercial Aviation Association of Southern Africa (CAASA) and the Department of Defence (DOD).

Through the AAD platform, Armcor is able to demonstrate its commitment to supporting the DOD and the defence-related industry at large. AAD also allows Armcor the opportunity to view some of the new technologies that have been developed internationally, so as to keep abreast of technological trends and advances. This is critical in ensuring that Armcor is able to acquire the best equipment on the market for the South African National Defence Force (SANDF) capability requirements. AAD 2016, under the theme 'Unlocking Africa's Aerospace and Defence Potential', attracted more exhibitors, trade visitors and more official delegations than before.

ACQUISITION

During the period under review, Armcor saw a significant and very concerning decline in the performance of industry, and in particular, the ability of Denel to meet its contractual obligations with regards to the execution of critical projects. In spite of the negative impact of industrial underperformance, combined with the continued challenge of receiving requirements on time to contract industry and to effect payments in the applicable financial year, Armcor has still managed

to achieve and exceed its agreed targets of 95% cash flow against the planned cash flow for both capital and operating funds by a significant margin for the year. This achievement is mainly attributed to a significant advance payment awarded on the Hoefyster program, and significant payments against the foreign component of the Ground Based Air Defence programme, that served to offset the underperformance by industry. Furthermore, while taking those contracts into consideration for which cash-flow could not be realised during the review period, due to external and excusable factors, Armscor also continued the trend of the past 6 years by achieving cash-flow in excess of 70% of adjusted ordered values.

During the period under review, Armscor managed and executed contracts to a total value of R11.361bn for the DOD, of which R6.842bn, or 60.2% of the total portfolio related to technology and capital acquisition projects, while R4.519bn or 39.8% of the total portfolio related to procurement and maintenance and support contracts. The value of capital acquisition contracts managed during the review period increased from R5.939bn (51.6% of total portfolio) during the 2015/16 Financial Year to R6.842bn (60.2% of total portfolio).

The Acquisition Excellence objective of the Armscor Strategy, amongst others, mandates the improvement of the acquisition processes to ensure that a cost effective, adaptable and agile acquisition capability provides for a timeous response to DOD requirements. The newly developed shortened contracting process for the procurement of Commercial and Military Off-The-Shelf (COTS and MOTS) items has been fully implemented, and it has resulted in considerably shorter contracting times for those items. This is evidenced by the achievement of Armscor's target of an average of 60 days turnaround time for the simple procurement of COTS and MOTS items.

Armscor's most valuable asset is its professional and highly skilled corps of technical personnel, and the organisation continually endeavours to rejuvenate and grow this asset. During the review period, Armscor continued with its commitment to providing the experience to young engineers and scientists that is required by Engineering Council of South Africa (ECSA) for professional registration. A number of newly graduated engineers are placed in industry for a period of 1 to 2 years to obtain those required outcomes that cannot be obtained within the ambit of Armscor's normal activities. In addition to providing the young engineers with a number of the outcomes required for professional registration, this initiative provides them with invaluable exposure to industry, and to the complexities involved with development projects, and this serves them well in future careers as project managers in Armscor that are responsible for managing projects being executed in industry.

RESEARCH AND DEVELOPMENT

In accordance with the mandate given to Armscor, the Research and Development (R&D) Department manages the strategic capabilities and facilities under its control. The Department endeavours to continue to deliver on Defence Operational and Scientific Research, Test and Evaluation Services and Technology Management, Analysis and Industrialisation and Intellectual Property Management Services.

Potential business partnering was, and is still being explored under the Armscor Turnaround Strategy to ensure the sustainability and effective management of these strategic and sovereign capabilities. The Department managed to earn 34% of the total business portfolio of R451,3m from commercial contracts, and 66% from the Department of Defence and Military Veterans. The Alkantpan and Gerotek Test Ranges, as well as Hazmat Protective Systems mainly contribute to the local and foreign commercial income.

The department is still facing the challenge of insufficient funding to ensure the effective execution of its mandate. Commercial opportunities created by research and development activities are actively being exploited to contribute to long-term financial sustainability.

DOCKYARD

The Dockyard achieved all its performance deliverables, which were signed off by the SA Navy, in accordance with the performance agreement with the Dockyard for the reporting period. These deliverables included the delivery of projects within agreed milestones, cash flow management, provision of waterfront services and training services.

The Dockyard transfer process from Armscor to Denel continued to gain momentum during the period under review. The key outstanding actions include key approvals by National Treasury and an agreement with Denel's strategic partner. Both processes are underway. This transfer will culminate in the SA Navy retaining sovereign control, and Armscor being the contracting authority, with Denel being the operator.

The Dockyard was also recertified as an ISO9001-2008 accredited operation, valid for a period of three years.

Armscor permanently absorbed a number of employees who were previously employed through labour brokers. This would ensure that these employees enjoy the same full benefits as any other permanent employee.

The Dockyard continued with its apprenticeship programme, thus ensuring a much needed feeder scheme to the technical domains.

HUMAN RESOURCES

Our people remain the most valuable asset and we are committed to their ongoing development. There was great progress in the promotion of the identified successors. Knowledge transfer and succession planning initiatives were included in the balanced scorecards of all relevant executives and senior management. Interviews for knowledge retention were conducted to capture critical information and stored in the knowledge portal, as reference material for the training and development of successors/mentees. Multi-year development plans between the knowledge holder and the mentee have been contracted.

Armcor continues to drive transformation as part of its corporate objectives through the implementation of its Employment Equity Plan. The main focus of transformation remains women and persons with disabilities. The goal for appointing females with disabilities by the organisation has been surpassed.

There was an increase in new graduates and bursary intake, with additional funding support from the Ledger Fund.

Armcor promotes a culture of learning at all occupational levels through Adult Education and Training Programmes (AET). Newly appointed graduates acquire skills by working on advanced technologies at Armcor and other innovative defence partners in the industry via the Talent Development Programme.

CORPORATE SOCIAL INVESTMENT (CSI)

Armcor supports the upliftment of the communities in which it operates through education and socio-economic development programmes. Investment in education focuses on improving results in Science, Technology, Engineering and Mathematics (STEM) subjects to encourage the growth of Engineers and Scientists. This is in line with the organisation's objectives of focusing on Human Capital Development.

CSI initiatives undertaken during the period under review are listed below:

- Armcor entered into a R2,6m collaboration with the University of Fort Hare to be implemented in three phases ending 30 July 2019, supporting the Fort Hare School of Science and Technology Discovery Centre (FOSST DC).
- Armcor donated ultra-modern academic equipment aimed at assisting learners with physical and learning challenges at Adelaide Tambo School, Jabavu, Soweto.
- Armcor Chairperson, Vice Admiral (ret) Mudimu, adopted Curtis Nkondo School of Specialisation. Armcor sponsored the awards ceremony where it

- received a supporter award from the school in 2016.
- Armcor contributed towards the founding event of the Raymond and Dideka Mhlaba Foundation by sponsoring food parcels for needy military veterans in the province.
- Honouring Madiba's legacy, Armcor revamped the premises of Sizanani Children's Home. Armcor donated blankets and food parcels.
- Armcor donated R100 000 to the SANDF Education Trust.
- Armcor hosted learners from Daspoort Secondary School on 25 May 2016 in support of the Cell C "Take a girl child to work" campaign.

MILITARY VETERANS

Armcor continues to collaborate with, and enhance its relationship with the Department of Defence and Military Veterans.

Military Veterans is a newly designated group in the Enterprise Supplier Development, as introduced by the revised B-BBEE Codes of Good Practice. Armcor's sales improvement initiative shall render support to the Military Veterans. A dedicated programme to address real needs of Military Veterans through various projects was established by Armcor.

Armcor supported the launch of the Women Military Veterans Association (WOMVASA).

Currently, Armcor is working on an ESD Project in terms of a Memorandum of Understanding with the Department of Military Veterans. Armcor has set aside R295 000 for a textile incubator project for seven beneficiaries of Military Veterans, who are all young black women from the various formations of the former Non-Statutory Forces (NSF). This incubator project will commence in July 2017 through an SLA scheduled to be signed with a successful black women-owned textile manufacturing company, CTU.

During November last year, Armcor, as part of its CSI initiative, established a partnership with the Gauteng Department of Community Safety for a Community Patroller Programme, in support of 50 Military Veterans who were included in the training and deployment to the identified crime hotspots throughout Gauteng. Armcor contributed R375 000 for the purchase of two-way radio communication for the project.

Armcor maintains a database of Military Veterans suppliers. On 23 March 2017, Armcor held a workshop for Military Veterans suppliers, to provide them with information on Armcor's procurement and acquisition processes.

Currently, there are Military Veterans companies that have been awarded tenders in Armcor's core business

to the tune of approximately R30m. Others have been appointed through the ESD initiative as suppliers to main contractors to the tune of approximately R40m, while other projects of this nature are still being processed. Other initiatives include 5 bursaries worth R218 000 awarded to Military Veterans' beneficiaries.

ACKNOWLEDGEMENTS

I wish to express my thanks and appreciation to the Minister, Ms Nosiviwe Mapisa-Nqakula and Deputy Minister, Mr Kebby Maphatsoe for their guidance and support, as well as to the Secretary for Defence, Dr Sam Gulube and the Chief of the SANDF, Gen Solly Shoke, for the confidence they have shown in the Armscor team. A word of thanks is directed to the officials of the Department of Defence who were at all times available and willing to assist in matters of departmental procedure. We assure them of our support and commitment.

Parliament's Portfolio Committee on Defence and Military Veterans has contributed to the successful execution of our work, through their guidance and robust oversight role, which is appreciated.

It was a pleasure, and continues to be a pleasure to have served our primary clients, the SANDF as a whole, the SA Police Service and SA Correctional Services during the period under review, and we thank them for their support as well.

To all other stakeholders, I wish to express appreciation for their support and assistance in the past year in helping Armscor render an excellent service to all its clients.

My congratulations go to the South African defence industry for delivering quality defence equipment to our clients and the SA National Defence Force.

The defence-related industry, spearheaded by the South African Aerospace Maritime and Defence Industries Association (AMD), continues to contribute effectively to the development of the organisation through ongoing engagements, and for that, I am grateful.

I take this opportunity to thank all those with whom Armscor interacts for their generous support and reassurance.

I am greatly indebted to the Chairman and the Board of Directors for their wisdom and direction. Without their unwavering support, the implementation of the new strategic direction of Armscor would not have materialised, their vast and diverse wealth of experience is indeed highly appreciated.

To the Executive Committee and all staff, I would like to thank them for their contribution to what has been achieved during the year under review, which has been full of challenges, but which they have handled commendably.

Thank you to the late Mr Justice Motha, Chief Audit Executive (CAE), for his dedication and commitment to the organisation. His death was sudden and a great loss for the team. May his soul rest in peace. My thanks also go to Adv. Vuyisa Ramphela who retired in April 2017.

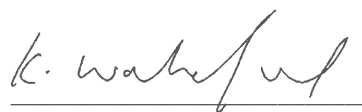
I thank the Unions who continued to engage with Management in a constructive manner.

Armscor can, with confidence, look forward to meeting the challenges of the future and playing its important role in the "Defence Team" and in the Defence Ministry. The Armscor name and flag will, I am quite certain, continue to fly proudly. Armscor looks forward to the new fiscal year with greater optimism, ready to take its performance to a higher level.

The horizon is full of promise for a transformed Armscor in its endeavour to reposition and reassert itself in the industry, in South Africa and globally. I am confident that the leadership, oversight and technical expertise of the Armscor family will enable Armscor to deliver on its mandate.

May Armscor continue to grow from strength to strength and achieve new heights in years to come.

Thank you!



Mr KPE Wakeford
CHIEF EXECUTIVE OFFICER





03 OPERATIONAL REVIEW

ACQUISITION

The core function of Armscor is to acquire defence materiel and related services, primarily for the South African National Defence Force (SANDF), but also for other government departments and services, with permission from the Minister of Defence and Military Veterans.

The acquisition function of Armscor entails all the actions that need to be taken to satisfy the need for materiel, facilities, or services intended for use in meeting or in support of client requirements. This includes requirements analysis, technology development, design and development of products and product systems, the industrialisation, and the manufacturing of mature products and product systems that fully meet the stated user requirements. Also included is the 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 function of Armscor can be broadly classified into two main categories, the first being capital acquisition (funded by the Special Defence Account), which involves projects that cater for technology development, directed systems development and the subsequent production of new defence materiel. The second is that of operating procurement, and maintenance and support of existing equipment and systems (funded by the General Defence Account).

Capital equipment acquisition encompasses 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 and robust risk-reduction process is followed, that 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 financial year under review, Armscor managed and executed contracts to a total value of R11,3bn for the DOD, of which R6,8bn, or 60,2% of the total acquisition and procurement portfolio, related to technology and capital acquisition projects. Procurement and maintenance and support contracts, to the value of R4,5bn, or 39,8% of the total portfolio, were managed and executed during the same period. The value of capital acquisition contracts managed during the review period increased from R5,9bn (51,6% of the total

portfolio) during the 2015/16 financial year, to R6,84bn (60,2% of the total portfolio) during the current review period. The value of procurement and support contracts proportionately decreased from 48,4% (R5,5bn) to 39,8% (R4,5bn) of the total portfolio. This change in the relative values of capital, versus operating and support work, can, amongst others, be attributed to a number of large capital projects with significant expenditure for production of equipment (e.g. Ground Based Air Defence and Tactical Communications equipment), while there has been a reduction in support and maintenance expenditure, amongst others, attributed to less expenditure by Armscor on the maintenance of the Samil fleet of logistics vehicles.

STATUS OF ACQUISITION OBJECTIVES

During the review period, Armscor continued with its commitment to providing the necessary experience to young engineers and scientists that is required by ECSA for professional registration. A number of newly graduated engineers are placed in the industry for a period of one to two years to obtain those required outcomes that cannot be obtained within the ambit of Armscor's normal activities. In addition to providing the young engineers with a number of the outcomes required for professional registration, this initiative provides them with invaluable exposure to the industry and to the complexities involved with development projects, and it serves them well in future careers as project managers within Armscor, being responsible for managing projects being executed in the industry.

The Acquisition Excellence objective of the Armscor Strategy, amongst others, mandates the improvement of the acquisition processes to ensure that a cost-effective, adaptable and agile acquisition capability provides for a timeous response to DOD requirements. A newly-developed, shortened contracting process for the procurement of Commercial and Military Off-The-Shelf (COTS and MOTS) items has been implemented, and has resulted in considerably shorter contracting times for those items. This has resulted from the achievement of Armscor's target of an average of 60-days turnaround time for simple procurement of COTS and MOTS items. Furthermore, the jointly (Armscor and DOD) developed *Handbook for the Acquisition of Armaments in the Department of Defence and Armscor* (DAH1000) was approved on 30 June 2016. This handbook evolved from and replaced the previous *DAP1000 Joint Armscor/DOD Policy, Process and Procedure for the Acquisition of Armaments in the Department of Defence*, following a joint

effort to adapt and optimise the policy in accordance with the outcomes of the Acquisition Improvement Workshop that was conducted in August 2012. The adaptation coincided with a policy review process to ensure that the policy remains up-to-date with changes within the DOD, and also takes into account the requirements of the Defence Review 2015.

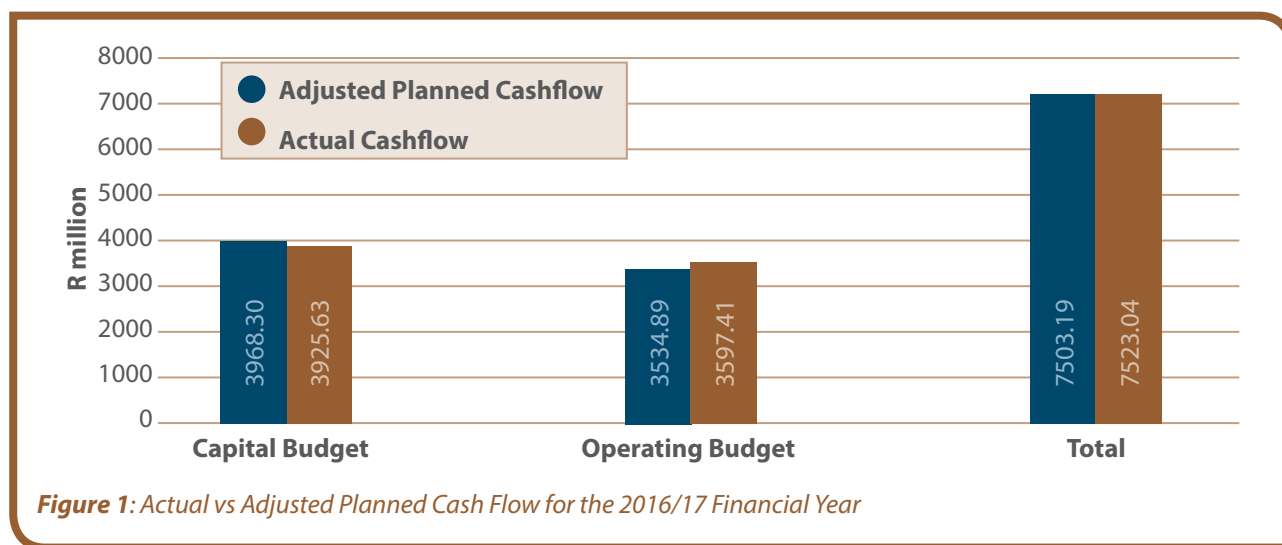
The handbook also incorporates an *Expedited Acquisition Process* that facilitates the rapid acquisition of Military- and Commercial-Off-The-Shelf equipment in response to urgent requirements from the DOD.

The computerised *Business Register* that tracks the execution of all DOD requirements being executed by Armscor was further updated to distinguish between different categories of procurement and acquisition requirements, each with different target timelines. The Business Register is an invaluable tool that provides management with the ability to track the execution of all received requirements, and to identify and follow up on requirements that are not executed within the standard time.

ACQUISITION FINANCIAL PERFORMANCE

An important objective of the Acquisition Department remains the achievement of planned commitment and expenditure of DOD funds. Armscor's cash flow performance is measured against the joint Armscor/DOD cash flow planning that occurs during June of every year, adjusted with mutually-agreed deductions due to factors beyond Armscor's control. Factors beyond Armscor's control that inhibit the realisation of planned cash flow 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, or where all planned funds are not spent as a result of improvements in the predicted rate of exchange.

A total amount of R2,2bn, which was planned during the first revision in June 2016 as cash flow for the 2016/17 financial year, is regarded as not being achievable due to factors beyond Armscor's control, and is supported by agreements from the DOD. Taking this reduction of the planned cash flow target into consideration, Armscor managed to achieve and exceed its target for the year of 95% cash flow against the planned cash flow for both capital and operating funds by a significant margin. The graph below reflects the planned cash flow that has



been adjusted by deducting commitments that could not achieve cash flow due to factors beyond Armscor's control, versus actual cash flow achieved. .

In spite of the continued challenges such as receiving requirements on time to contract industry and to effect payments in the applicable financial year, as well as continued underperformance by industry, Armscor has managed to achieve cash flow in excess of 70% of the adjusted ordered values for the past six years. This annual trend is indicated in the graph in Figure 2 below. The

adjusted cash flow graph excludes the value of orders that could not affect the cash flow. In spite of the significant underperformance by industry, specifically in the areas of Denel Dynamics and Denel Land Systems, Armscor achieved the highest percentage of cash flow against the adjusted ordered value for the past eight years. This achievement is mainly attributed to a significant advance payment awarded on the Hoefyster programme, and significant payments against the foreign component of the Ground Based Air Defence programme that served to offset underperformance by the industry.

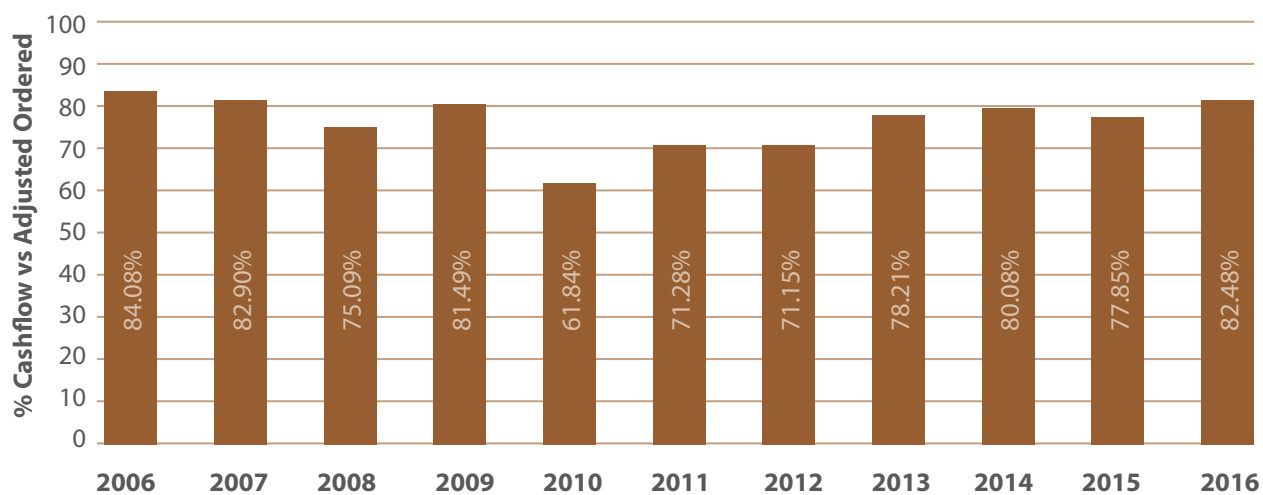


Figure 2: Cash flow as a percentage of adjusted ordered values per financial year for past 10 years.

ACQUISITION HIGHLIGHTS

MARITIME SYSTEMS

HYDROGRAPHIC SURVEY CAPABILITY

This programme relates to the acquisition of a new Hydrographic Capability Products System for the SA Navy. The programme requirements comprise of the following:

- A Hydrographic Survey Vessel, including two fully integrated inshore survey motor boats and one sea boat. This new vessel will serve as a replacement for the SAS Protea, which is still in service with the Navy, but is obsolete and no longer fully meets the functional requirements of the SA Navy;
- Upgrading of the current shore-based hydrographic office infrastructure located at the Silvermine Complex in the Cape Peninsula; and

- All associated integrated logistic support elements that are required to support the total capability.

On 18 November 2016, the Armscor Board of Directors granted conditional approval of the preferred supplier for this capability. Following on an agreement that was reached between Denel Maritime and the preferred bidders of both the hydrographic survey and patrol capability preferred bidders regarding the involvement of Denel and the Simon's Town Naval Dockyard in the execution of both projects, the contract negotiation process duly commenced on 27 February 2017 at the contractor's premises in Durban. The contract negotiation process addresses all technical and commercial conditions, and is aimed at arriving at a contracting position by the end of May 2017.



Hydrographic Survey Vessel

MULTI-MISSION PATROL CAPABILITY

This programme necessitates the acquisition of a new Multi-Mission Patrol Capability for the SA Navy, comprising of three Offshore Patrol Vessels (OPVs) and three Inshore Patrol Vessels (IPVs).

Following on the conditional approval of the preferred bidder for this capability, granted by Armscor's Board of Directors on 18 November 2016, an agreement was reached between Denel and the preferred bidder regarding the involvement of Denel Maritime and the Simon's Town Naval Dockyard in the execution of the projects. Negotiations between the preferred bidder and Armscor for the execution of the projects, in accordance with the original requirements and within the framework of technical and commercial details of the preferred bidder's offers, commenced on 6 March 2017.

MIDLIFE UPGRADE OF THE SA NAVY FRIGATES

The project is currently in the concept phase, which commenced in February 2016. The focus of the concept phase has been to conduct functional studies aimed at clarifying the functional and logistic requirements of both the platform and combat suite upgrade, to identify alternative options for satisfying the User Requirements, and to determine the optimum solution. The project aims to finalise the Project Study Report, which will recommend the preferred option for execution during the next phase of the project, which will commence during the second semester of 2018.



MEKO A-200 Frigates

MIDLIFE UPGRADE OF THE SA NAVY SUBMARINES

This programme, relating to the midlife upgrade of the submarines of the SA Navy, is presently in the early phases of the acquisition process where feasibility studies are being conducted. The aim of the programme

is to combat obsolescence of the platforms through the replacement of identified subsystems on the vessels, in order to ensure future supportability. The project is expected to reach the contracting stage by 2020.



South African Navy Submarines

AIRBORNE SYSTEMS

NEW GENERATION SHORT RANGE AIR-TO-AIR MISSILE

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

The full scale development of the missile system was completed during October 2016 with the completion and acceptance of the Critical Design Review (CDR) of the last outstanding subsystems, and on the complete missile system level. Qualification trials on the missile seeker were also successfully conducted during the review period, through a series of captive flight tests that were conducted at the Overberg Test Range. The focus for the next reporting period is to conduct the final live firing trials of the complete missile under various preselected

flight profiles. Successful completion of the firing trials will signify the completion of the missile development phase and the co-operation with Brazil. This programme has been plagued with various delays due to technical challenges, and final completion will be approximately two years later than originally anticipated.

During March 2015, Armscor contracted Denel for the industrialisation and subsequent production of the required missiles for the SAAF. Progress on the preparation of the manufacturing processes has however been slow, and the manufacturing of subsystems for the first batch of missiles has been delayed by almost a year due to various challenges experienced by Denel. Delivery of the first batch of missiles and initial logistic support capability is now scheduled for the fourth quarter of the 2017 calendar year.



A-Darter Air-to Air Missiles

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 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 originally contracted quantity of 238 combat vehicles was also subsequently increased to 242 vehicles. The full requirement of the SA Army is 264 vehicles, but due to financial constraints, the full complement of vehicles required has not yet been contracted. Twenty one vehicle platforms were delivered by Patria Land and Armament from Finland, while the remaining vehicle platforms will be produced locally by Denel Land Systems (DLS) and its subcontractors. The turrets and weapon systems are locally developed and manufactured by DLS as the prime contractor.

The project has experienced several delays during the reporting period, primarily as a result of technical and procurement challenges experienced by Denel Land Systems. Delivery of the first Pre-Production models (PPMs) of the Section variant that leads the development, industrialisation and production of the other variants, has been delayed by 20 months, and completion of the first three PPMs is expected by July 2017 and the first locally assembled PPM by December 2017. Completion of the mortar variant development, which was originally planned for mid-2017, is now expected in March 2018, and the completion of the missile variant development, which was planned for March 2017, has moved to

November 2017. The delays on this project and other projects have been the subject of continual discussions at top management level between Armscor and Denel, and corrective actions are being monitored on a regular basis.

The transfer of technology from Patria in Finland to the South African industry is progressing according to plan, to ensure that local industrialisation and production of the platforms happens seamlessly. The welding of the hulls in South Africa is in process, and six hulls were delivered during the reporting period.

In spite of the delays incurred with the project, significant progress was made during the past year with the development of the command, fire support, mortar and missile variants. All efforts are being made to bring the programme back on schedule, and to ensure that the production run of the first battalion of eighty eight vehicles will be completed by March 2019.

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 successfully delivered to the SA Army Air Defence Artillery Formation 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 (GFCS) of the 35mm Anti-Aircraft guns, currently in service with the South African Army Air Defence Artillery Formation. This upgrade will provide a radar-guided, autonomous gun fire capability to the 35mm guns, which will significantly enhance

the operational capability of these assets. During the reporting period, a further ten of the 35mm guns (MK 5A and Mk 7) were locally upgraded and accepted, and the last three Radar Sensor Units and three Gun Fire Control Posts were delivered and integrated with the two gun variants. Very successful Operational Training and operational Test and Evaluation (OT&E) were conducted in March 2016 at Alkantpan and Overberg Test Ranges, where two complete Gun Fire Units, with both gun configurations and ammunitions, destroyed all aerial test targets during live firing by trained members of the Air Defence Artillery Formation. Excellent progress has

been made towards the delivery of five autonomous Gun Fire Units with carrier vehicles and an upgraded mobile support capability by the end of 2018.

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, and to Higher Order User Systems. The project is currently performing the System Study with the objectives to establish an Allocated Baseline (ABL) and have a Development Plan approved during the 2017/18 financial year.



Ground Based Air Defence System for the SA Army

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 full interoperability between all users in the various services.

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 have been completed and will result in the first tactical communications system in the world that will provide complete interoperability between all elements of the battlefield (Air Force, Army, Navy, etc.) without making

use of gateways or protocol converters as is being done with most other systems internationally.



New Generation Tactical System

Industrialisation 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) has also been completed, and all the manufacturing baselines have been established. Development of the communication management system is nearing completion and the critical building blocks of the management system will be completed by June 2017. Production of the various sub systems has been activated, and substantial quantities have already been delivered.

DT&E (Design Test and Evaluation) of the complete system is planned for July 2017, after which OT&E (operational test and evaluation) will be conducted.

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, and forms an integral part of the DOD's policy framework for the retention and development of the South African Defence Industry.

Armcor is currently managing 12 existing DIP agreements resulting from capital acquisition projects, a

single obligation that stems from the SDPs, and one DIP agreement resulting from the procurement of pistols on behalf of the SAPS.

The only remaining SDP related DIP obligation is one incurred by MBDA for the acquisition of the Exocet surface-to-surface missile, for deployment on the frigates of the SA Navy. The DIP agreement has been extended to March 2019 to give Armcor and MBDA an opportunity to identify suitable projects involving local companies to discharge the outstanding obligation.

The mechanism to pro-actively bank DIP credits for future use was reinstated after the approval of the DIP Policy (A-POL-6000) Issue 6 on 28 October 2015. Foreign companies can now enter into Pro-Actively DIP agreements with Armcor. To date, a Pro-Actively DIP agreement was signed with Airbus Group SE on 16 March 2017. This is in recognition of the work allocated to Denel Aerostructures for the manufacture of frames of the A400M Programme.

The status of the four DIP portfolios at the end of the reporting period is summarised in the following table.

The status of the four DIP Portfolios as at 31 March 2017 is as follows:

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	1	7	15 111	0	14 178	933
Active (SDA)	12	32	7 170	135	6 902	268
Police contracts	1	3	184	0,5	152	32
Total	14	42	22 465	135,5	21 232	1 233

Proactive*	9	40	n/a	(345)	1 679	n/a
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Note: The negative value relates to the transfer of proactive credits to active agreements, as well as credits expired since the termination of proactive agreements.

Status of DIP obligations relating to the Strategic Defence Packages as at 31 March 2017:

Project	Obligation Rm	Planned performance Rm	Actual performance Rm	Actual vs planned %	Actual vs obligation %	Sales (local and exports) Rm	Technology transfer Rm	Investments Rm
Frigates	2 941	2 008	2 008	100	68	1 505	465	38

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

DEFENCE MATÉRIEL DISPOSAL

Armcor's Defence Materiel Disposal's (DMD) mandate provides for the disposal of excess and obsolete defence materiel on behalf of the Department of Defence. Defence materiel to be disposed normally includes such items as ammunition, aircraft, spares, vessels, and land-and/or air-based equipment.

Disposal of the defence materiel is carried out in accordance with the requirements of the DOD and regulatory authorities such as the National Conventional Arms Control Committee (NCACC) and the National Non-Proliferation Council (NPC).

During the reporting period, Armcor continued with its Sales and Sales Support Improvement Plan, and this initiative has resulted in a more efficient and professional delivery of its alienation and disposal service to the

Department of Defence. DMD concluded orders to the value of R18, 56m during the reporting period.

A number of meetings were held with the Department of Military Veterans: Disposal Office, and positive progress has been made with regard to the DMD/DMV Disposal Cooperation Initiative.

DMD has also made promising inroads with sales into Africa, and has already concluded a number of sales transactions with more orders to follow.

During the reporting period, Armcor sold DOD surplus and redundant stock and other defence materiel to the South African defence-related industry. The moratorium instituted by the DOD on the sale of Samil-type vehicles has remained in force, and continues to impact negatively on sales and revenue generation by Armcor.

RESEARCH & DEVELOPMENT

In accordance with Armcor's mandate, the Research and Development (R&D) function manages the strategic capabilities and facilities under its control. The department endeavours to continue the growth and delivery of Defence Operational and Scientific Research, Test and Evaluation Services, Technology Management, Analysis and Industrialisation, and Intellectual Property Management Services.

Potential business partnering was, and is still being explored under the Armcor Turnaround Strategy to ensure the sustainability and effective management of these strategic and sovereign capabilities. The department managed to earn 34% of the total business portfolio of R451,3m from commercial contracts, and 66% from the Department of Defence (DOD). The Alkantpan and Gerotek Test Ranges, as well as Hazmat Protective Systems, mainly contribute to the local and foreign commercial income.

The department is still facing the challenge of insufficient funding to ensure the effective execution of its mandate. Commercial opportunities created by research and development activities are actively being exploited to contribute to long-term financial sustainability.

The department focuses on the following three functional areas:

- **Functional Area 1:** Technology Management, Analysis and Innovation;
- **Functional Area 2:** Test and Evaluation Services; and

- **Functional Area 3:** Operational and Scientific Research.

TECHNOLOGY MANAGEMENT, ANALYSIS AND INDUSTRIALISATION

This division manages technology programmes in various areas to develop and maintain capabilities in South Africa, that would support the new and changing demands of the South African National Defence Force. The division performs an independent, centralised coordination and management role for technology acquisition and industrialisation.

The strategic intent for technology development programmes in various technology areas is to concentrate on the development and maintenance of relevant technologies and capabilities in South Africa, that will support the new and changing demands of the South African National Defence Force (SANDF).

These programmes are conducted in South African defence industries, defence evaluation and research institutes (DERIs) and at tertiary education institutions (universities).

Management of Technology Development Programmes include:

- **Electronics Technology:**
Provides a ready technology base to provide scientific and engineering advice and technical solutions.

- **Aerospace Technology:**
Provides the arms of service with scientific and engineering support services in the Aeronautics, Airborne Electronic Warfare and Guided Weapons domains, including the development of an All Weather Air Defence Missile (AWADM) demonstrator and air platform self-protection demonstrators. Maritime technology provides the SA Navy with scientific and engineering support services, as well as risk reduction work for the new patrol vessels.
- **Support Technology:**
Develops and maintains sustainable capability in chemical and biological defence, as well as ergonomics and body armour. Landwards technology provides the SANDF with scientific and engineering advice and technological solutions aimed at providing engineering knowledge to improve weapon systems.
- **Technology-Based Special Programmes:**
Defence Engineering and Science University Programme (DESUP), Defence Transformative Enterprise Development (DEFTED), and Defence Black Industrialist Programme.

The technology funding of R854m (including roll-overs and shuffles) for these programmes was distributed as follows:

- Armscor Research and Development Institutes: 11%
- CSIR: 21%
- South African Defence Industries: 59%
- Universities: 9%

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

- The technology development objective for guided weapons is to develop an All Weather Air Defence Missile (AWADM) demonstrator to expand and prove the technology capabilities in areas such as radar seekers, missile navigation systems, fusing, warheads, flight control and propulsion systems, integrated through a sound systems engineering process. A highlight was the first successful surface launched missile with a programmed trajectory to proof and evaluate technical progress made on project GLOW. The test characterised the aerodynamic model of the Marlin missile and demonstrated the safe launch and control of the missile. This development test was a progressive step towards a guided flight test planned for August 2017, which will demonstrate the radar seeker pitched against a maneuvering target.
- The electric optical tracker, consisting of a combined radar tracker and an electro optical was piloted for an extended period of time and is now an advanced technology demonstrator. This new tracker will

be evaluated in the new financial year and will be integrated on the new patrol vessels.

- The research programme for the development of body armour was reviewed to ensure that it is better aligned to national objectives, SANDF requirements and the defence industry, while being inclusive of all universities in the country. The Defence Engineering and Science University Programme (DESUP) will begin operation in the 2017/18 financial year.

INNOVATION DIVISION

- Intellectual Property (IP) created or acquired during the acquisition of defence materiel or technology development projects, on behalf of the Department of Defence (DOD), is managed by the Innovation Division. The IP is categorised as either sovereign or strategic IP, and the function to manage the IP includes the following generic elements:
 - Identification of IP;
 - IP recordal and protection;
 - IP valuation;
 - IP contract management;
 - Legislative compliance with IP laws; and
 - Direct and/or indirect exploitation of IP.

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

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

Five IP exploitation requests from the SADI were approved by the DOD in the 2016/17 financial year.

Furthermore, in managing the IP, the Innovation Division is responsible for assisting the DOD in preparing a Financial Asset Register for all intangible assets within Armscor in accordance with Treasury's Modified Cash Standard. The Register is audited annually by the Auditor-General. An unqualified audit for intangible capital assets for 2016/17 was obtained by the DOD. This is the second time ever that the DOD has achieved this. DOD IP that is under the custodianship of Armscor accounts for the majority of these assets.

Armscor, through the R&D Innovation Division, has been engaging with SADI in order to negotiate Legal Framework Agreements that seek to protect sovereign IP that is in their custody and to facilitate the participation of previously disadvantaged Small, Micro and Medium

Enterprises. Nanotek and the Reutech group (which includes Reutech Radar Solutions, Reutech Solutions, Reutech Communications and Reutech Fuchs Electronics) signed such agreements during the 2016/17 financial year.

TEST AND EVALUATION FACILITIES

ALKANTPAN TEST RANGE

The Alkantpan Test Range is an all-purpose ballistic facility that is strategic to the DOD for conducting armaments testing, and also renders services to clients from both the local and international defence industry markets.

Alkantpan has again experienced a significant increase in the number of tests executed during the 2016/17 financial year, that resulted in a 14% increase on planned sales. Foreign income generated contributed 64% to the total sales of R86,2m.

The joint testing exercises between Germany (Diehl Defence BGT) and Italy (Otto Melara) on 127mm and 155mm ammunition continued during the financial year. Alkantpan was successful in concluding another two year contract, which will expire in March 2018, with

Singapore Technology Kinetics Pte Ltd (STK), Alkantpan's major foreign client. Ballistic tests for STK included blast trials, where three different types of homemade bombs were simulated to conduct measurements and analyse the effect on various targets. Heat flux measurement was conducted for the first time and the results were very positive. Another similar test is planned for 2017/18, where the homemade bomb will be gas instead of explosives. This is a good indication that the test and corresponding measurement results were successful and effective.

Tests conducted for the South African industry are also still on the increase, and it is foreseen that this trend will continue for the medium term.

One of the current tracking radars is old and cannot be upgraded further. Although it is still effective for shorter-range tests, the demand for longer-range tracking has increased to the extent that a new radar needs to be acquired to enable slaving and tracking. These technology upgrades and acquisitions strengthen Alkantpan's strategic capabilities to support the DOD as part of its mandate. Alkantpan has also maintained and increased its capabilities on ballistic testing and evaluation.



Tracking Radar at Alkantpan Test Range

The new weapon store has been completed, and is in use to store foreign clients' weapons and other equipment. Germany has requested storage facilities until 2020.

The Square Kilometre Array (SKA) co-existence document has been signed and accepted by the various role players. The actual effect of the co-existence is still not fully known, and will probably surface once SKA is in full function mode to confirm whether tests have any significant influence on SKA operations. Several changes need to be made at

Alkantpan as part of the agreement, and these include moving the relay station for radio communication, and changing the current system from analogue to digital, which will decrease the bandwidth used. Part of the mitigation process will also be the replacement of the mobile upper air meteorological system, the GPS RTP repeater and the Internet Wi-Fi link from Prieska. A technical task team co-manages the day-to-day operations between the SKA and Alkantpan.

GEROTEK TEST FACILITIES

The strategic intent of Gerotek Test Facilities is to support the acquisition processes of Armscor and the Department of Defence (DOD) in terms of test and evaluation of defence-related products and systems, as well as to maintain key facilities, equipment, capabilities and technologies.

The secondary objective is to leverage capabilities and available capacity for commercial business, in order to complement the funding required to sustain operations.

Scientific testing requires a process delivering repeatable test results. These can only be delivered if test facilities are well maintained, staff is capable of performing the tests according to the standards, and the system is managed according to international standards.

Gerotek fulfils this requirement by being internationally accredited, by maintaining safety, health and environmental standards, ensuring it is SABS accredited and by investing in preventative and scheduled maintenance and renewal to maintain standards.

Gerotek offers its services to the commercial sector through advanced driver training, corporate events, restaurant and conference facilities to maximise its attractiveness to the private sector, and to increase growth opportunities.

Highlights of the services that were offered during the year under review include:

- The testing of military vehicles and components at Gerotek by the local defence manufacturing industry;
- Testing of vehicles and products at Gerotek by the private vehicle industry;
- Development testing of new vehicles at the Gerotek facilities, specifically by BMW;
- Hosting of military and Armscor conferences at Gerotek;
- Hosting of vehicle launches (including heavy vehicles and new cars) at Gerotek for the private vehicle industry;
- Hosting of vehicle and brand promotions by Gerotek for the private motor industry, which indirectly contributed to additional exposure for Gerotek in the media;
- The testing and launching of tyres at Gerotek. The launches were attended by the international media, also contributing to the exposure of Gerotek to international markets;
- Hosting of the new Consumer Car of the Year Competition; and
- Presenting specialised driver training to various organs of state and companies from private industry.

The uniqueness of the Gerotek facility complements many successful product promotion and launch programmes. Gerotek provides a strategic contribution to safety and the economy by ensuring that vehicles and other products are thoroughly tested and that drivers are better trained.

OPERATIONAL AND SCIENTIFIC RESEARCH

ARMOUR DEVELOPMENT

The Armour Development division continued conducting continuous research and development on armour protection, to maintain and advance armour protection technologies. Armour Development furthermore contributes, through its continuous research and development, to ensuring the establishment of the industrial capability to satisfy armour protection requirements timeously.

The research work on armour protection systems, as contracted by the Defence Research and Development Board (DRDB), continued. The development of armour against the RPG-7 rocket-propelled grenade continues, together with the optimisation of the explosive reactive armour, with a focus on the reduction of collateral damage. The protection of navy ships from RPG-7 attack is still a focal point of current developments. Full-scale, add-on armour tests continued with an emphasis on weight reduction.

The development of body armour has neared conclusion with significant improvements made in weight reduction, combined with protection against light weapons. The research on light armour systems will be expanded as several new material systems are available for evaluation.

Armour Development conducted several commercial ballistic tests for local defence companies, mainly aimed at qualifying or verifying the protection capabilities of the products these companies supply to their foreign and local customers.

PROTECHNIK LABORATORIES

Protechnik Laboratories' primary focus is on chemical and biological (CB) defence research and development. Specialised areas include the protection of personnel in hazardous chemical environments (respiratory, body and collective protection), detection and identification of trace amounts of hazardous chemicals, decontamination/detoxification of hazardous chemicals, synthesis of test compounds and chemical verification standards in support of commitments to the Chemical Weapons Convention (CWC). Furthermore, biomedical studies are conducted, focusing on characterisation and identification techniques for biological warfare agents.

At the end of each project year, Protechnik invites the CB Advisor to the Surgeon General (SG) and other key stakeholders to present project highlights, achievements and challenges. This forum has proven to be beneficial for scientists to get first-hand information about changing threats, and therefore guides our R&D scientific content, going forward.

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

DETECTION AND WARNING DOMAIN

A Vapour Generation System was designed, developed and evaluated following fruitful collaborative engagement with Spiez Laboratories in Switzerland. Operational problems that were identified during the commissioning stages were successfully addressed with the involvement of the contracted engineers. The system has the capability to evaporate liquid chemicals into chemical vapours under predetermined and controlled conditions (humidity, temperature, etc.).

The system will be used to test the capability and performance of portable chemical detectors for the detection of chemical warfare agents and/or toxic industrial chemicals. The laboratory testing of the portable chemical detectors under operational conditions (interferences, temperature, pressure and relative humidity) is important for the verification and validation of the manufacturers' performance claims, before procurement of the detection equipment for the SANDF.

PROTECTION DOMAIN

The Protechnik Protection Domain finalised the test method to evaluate Chemical Biological Radiological Nuclear (CBRN) filters against radioactive substances. Since Protechnik is not licensed to work with radioactive agents, the project was done in collaboration with the Nuclear Energy Corporation of South Africa (NECSA). During the last project year, tests were performed on laboratory-impregnated carbon, and they indicated that this carbon can protect against radioactive vapours, and can withstand temperature, humidity and airflow fluctuations. This impregnated carbon is therefore considered to be nuclear-grade carbon, and has the potential to find applications in nuclear power stations.

The test process comes with added benefits, in that it will also be utilised to evaluate the CBRN filters supplied to military personnel for the provision of protection against hazardous materials.

BIOMEDICAL DOMAIN

The South African Military Health Services (SAMHS) recently granted Protechnik funds to acquire equipment for the Biomedical Domain. This is in order to add to, and enhance, the domain's research capabilities. These currently include the detection and characterisation of biological warfare agents, environmental toxicology, protein and toxin profiling and biomarker studies. The equipment includes the Kingfisher DNA extraction robot, the Ion Chef, the EVOS fluorescent microscope and the Camag thin-layer chromatography (TLC) mass spectrometry (MS) interface.

The Kingfisher will be used to extract DNA from clinical specimens, as well as terrorist (white powder) samples. Since the instrument is isolated, it will increase safety and productivity levels in the laboratory. It reduces scientist's hands-on time, and therefore potential exposure, since it is a fully automated process. A sample is loaded into the robot, and by using various solvents and magnetic beads, the system is able to extract genetic material in pure form. This may then be utilised for downstream identification and characterisation methods such as next generation sequencing.

The Ion Chef is utilised to automatically construct next generation sequencing libraries: a process that is extremely time and labour intensive. A process that took up to two days can now be completed with less than 30-minutes hands-on time. This workflow is utilised to identify unknown organisms relevant to the SAMHS in various scenarios (clinical and defence).

The EVOS fluorescent microscope adds a new capability to the biomedical domain. Fluorescent microscopy will be utilised with human cell culture to study the effects of toxic compounds in vitro. In addition to this, the system may be utilised to monitor cell growth in drug development and toxicology research.

The Camag TLC-MS interface adds scope to the domain's research in that compounds isolated on TLC plates may now be characterised by mass spectrometry in a more efficient manner. Mixtures are separated by TLC on glass plates, coated with a sorbent material, and then introduced into the mass spectrometer by the TLC-MS interface. The equipment will be used for environmental toxicology as well as pharmaceutical studies.

With this equipment, the biomedical domain hopes to expand its environmental toxicology research, as well as to delve deeper into the identification of potentially useful new pharmaceutical molecules.

ERGONOMICS TECHNOLOGIES (ERGOTECH)

ERGOTECH is a key Research and Development Division, contributing to the comprehensive and efficient services in ergonomics and occupational health and safety, required both locally and internationally. ERGOTECH is primarily responsible for providing expert ergonomics knowledge to the SANDF, with respect to the integration of ergonomics considerations within the SANDF military systems. ERGOTECH's capabilities, which include three interlinked domains, i.e. Research and Databases, Design and Specification, and Test and Evaluation, are utilised for specific user requirements for the Department of Defence and the wider South African defence industry.

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

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

Highlights from the above research domains included equipped anthropometry scanning for the South African Infantry equipment provisions, providing empirical support for the use of hip belts during load carriage operations for optimal performance, understanding altitude implications on soldier performance, as well as enhancing ERGOTECH's capability in cognitive ergonomics by linking the impact of physical workloads on cognitive performance. Significant research into fatigue and soldier performance was conducted with biochemical, performance and subjective markers being used for overtraining determinants in specific SANDF training programmes. The above highlights, along with the numerous research projects performed as part of the above capabilities, formed the basis of the ergonomics research conducted for the SANDF that addressed human and system performance solutions.

In addition, ERGOTECH was deeply involved in the research and development of a new generation body armour technology demonstrator for the South African Army, taking into account the protection of both male and female soldiers. This body armour technology

demonstrator was designed and manufactured according to key ergonomic considerations and features, resulting in a body armour vest that is significantly lighter in mass, while still providing the level of comfort and protection required. The results of this research have proven to be significant to other arms of service, with future design and development requirements expected to be addressed by ERGOTECH.

Additional research highlights include ERGOTECH's involvement in the Africa Truck and Command and Control projects for the Defence Decision Support Institute, as well as the continued inputs for ergonomics efficiency of the new generation infantry combat vehicle project.

For the 2016/17 period, ERGOTECH faced several uncharted challenges. However, with the team of interdisciplinary qualified specialists with experience in applied ergonomics, the services for military and commercial clients have remained comprehensive and of the high quality that is associated with ERGOTECH's research outputs. It is through this objective that ERGOTECH continually strives to provide ergonomics solutions to optimise human performance, reduce work-related risks and improve overall productivity: a service unique to the SANDF.

HAZMAT PROTECTIVE SYSTEMS

Hazmat's primary focus is on the manufacturing and distribution of respiratory equipment. Hazmat managed to maintain and grow its client base and the Hazmat brand is synonymous in the South African safety industry with high quality respiratory equipment at an affordable price.

Hazmat made changes to its product offering and expanded its half-mask product range to provide additional features and benefits, and ensure product availability with the primary aim of increasing client satisfaction.

Hazmat performed a major maintenance service on the strategic activated carbon impregnation plant. The capability is used on a regular basis to impregnate carbon for commercial filter applications, but procedures can easily be adjusted to manufacture military carbons.

Hazmat made significant progress with the upgrade of its filter canister manufacturing (assembly) line. A new custom-built, automated, centrifugal canister filter glue-sealing machine was installed and commissioned. Hazmat is now capable of manufacturing filters with improved quality while the manufacturing process has a lower environment impact. The new capability creates a significant increase in Hazmat's manufacturing capacity.



Automated centrifugal canister filter glue sealing machine

Hazmat also procured an inline particle filter leak testing machine. Non-destructive product compliance testing can now be conducted on all manufactured particle filter products. Product compliance can be guaranteed, which is considered a significant improvement in the manufacturing process. This is a recommendation for filters to be used in toxic environments, and a requirement for military filters that must provide protection against very toxic particles, such as biological agents.

Hazmat's ISO 9001:2008 Quality Management System was certified by the South African Bureau of Standards (SABS). Significant progress was also made with the implementation of the ISO 14001 and 18001 safety, health and environment management systems.

Most of Hazmat's sales, 91,1% of the R14,6m, were derived from commercial business. Hazmat exceeded its budgeted sales and revenue targets, which is an achievement in the current economic climate. Hazmat exceeded budgeted net income by 12%.

One of Hazmat's strategic objectives was to be a self-sufficient entity that can serve the needs of the DOD and its commercial customers. This objective was achieved, considering Hazmat's financial outcome, product improvements, maintenance programmes and capital procurement projects that were successfully completed during the period under review.

INSTITUTE FOR MARITIME TECHNOLOGY (IMT)

The Institute for Maritime Technology (IMT) is mandated to develop and maintain a sustainable capability for providing techno-military expertise to support naval decision making in specific key naval expertise domains. IMT specialises in defence research, development, testing and evaluation of maritime systems, with 86,7% of the total sales of R94,2m funded by the DOD. Commercial sales make up the remainder of the revenues.

The IMT research and test activities for the 2016/17 financial year include the following support and highlights:

ELECTRO-OPTIC REMOTE MARITIME SURVEILLANCE

IMT's remote video surveillance system monitors Simon's Town Harbour. The footage of the system is transmitted to the SA Navy (SAN) Operations Room and is recorded at

IMT. IMT assisted the SAN with the SAS AMATOLA board of enquiry fire incident early in the 2016/17 financial year. At short notice, IMT was able to provide information to determine the timeline of this incident.



SAS AMATOLA Fire Incident

IMT conducted trials of the Durban harbour surveillance platform. The pan and tilt unit, optical sensors and drive electronics were installed on IMT's roof and underwent

test and evaluation. The evaluation has resulted in modifications to the interface and control software that will be installed at Durban Harbour.



Pan and Tilt Unit evaluation on IMT's roof

IMT successfully completed an installation for the SAN client station at Lower North Battery. The station was linked to the IMT Blue network, and primarily gives Lower North Battery personnel access to the firing range clearance cameras. The SAN client can also access the VistaNet system for detection of AIS and radar targets in False Bay.

SUBMARINE SQUADRON SONAR TARGET CLASSIFICATION AND DATABASE SUPPORT

IMT revised the rule database with correct parameters from the SAN frigates that were obtained through signature management support (Exercise RED LION measurements). The rule database was also tested through classification of frigate recordings from the exercise. The Automatic Sound Classifier (ASC) was tested with additional sonar target recordings in order to develop a capability to report gearbox lines. In future, the ASC tool will be further customised for the submarine flotilla under this project.

ACOUSTIC BEACON LOCATOR SYSTEM

The first year of system development was successfully completed. The system consists of a wet-end canister, (with two hydrophones and data capture electronics) fitted to a depressor wing, a winch with fibre optic cable and a top-end power supply and notebook computer. The wet-end electronics shares the proven technology that IMT developed for their underwater multi-sensor systems and installations at Waterbug. IMT developed a novel detection algorithm to detect the very short pulses (10ms), typical of aircraft Underwater Locator Beacons. IMT successfully demonstrated the system to the client in the IMT test tank using a test Underwater Locator Beacon. The system will be evaluated at sea in the next financial year (2017/18) to determine its performance and detection range performance. Future plans are also to acquire dedicated equipment, and to keep it in a state of readiness for use by search authorities.



Towfish and equipment for Underwater Beacon Locator system

SUBMARINE OWN NOISE ANALYSIS AND MANAGEMENT SUPPORT

A new set of data recorded in May 2016 by the submarine S101 has been added to the Own Noise Analysis database. The automated report was improved to present the vessel's own noise from all 16 on-board hydrophones. IMT has developed a new capability to present an overview of the own noise, similar to the broadband bars found on the submarine, in order to assist with future alarm threshold settings. A baseline comparison capability was also developed to assist with historic trend comparison for a submarine or between submarines.

EXERCISE MINE CAPABILITY

IMT utilised the recent Exercise RED LION to deploy the Instrumented Exercise Mine System (IEMS) off the Waterbug facility, in order to capitalise on the large number of SAN vessel transits taking place during that weeklong exercise in False Bay. IMT liaised closely with the SAN Officer Commanding the Exercise RED LION, to co-ordinate respective objectives from both IMT and the SAN, as well as schedule respective activities. The two IEMS capsules were assembled, programmed and deployed by the IMT dive team off the Waterbug facility, and together with the IMT Waterbug team, were able to capture a number of valid vessel transits over the Waterbug facility. IMT conducted a detailed trial Wash-up meeting with both SAN and Armscor representatives to discuss and conclude the findings of the sea trials. The respective influence signatures will serve to assist in the establishment of valid Trigger thresholds for setting up the Instrumented Exercise Mine System (IEMS) in typical mine warfare trial scenarios.

NAVAL LONG RANGE COMMUNICATION TEST BED

On the 13th October 2016 IMT set up and conducted a demonstration of the RapidM RAPTAWC tactical data terminal equipment, namely the RT5 (Terminal used for data communication) and RT7 (the Radio used for communication). The demonstration was conducted at IMT's building. This equipment can provide data, situational awareness and secure vocoder speech over High Frequency - 3-30MHz (HF). The system can also provide a Link-ZA Gateway to the CHAKA Command & Control system. IMT set up a HF base station using a TR2600 at IMT with a RT7 and a CHAKA Display. Two Harbour Patrol Boats from Maritime Reaction Squadron and a Vehicle from 4 Special Forces with TR2400 HF Transceivers (Reutech Communications HF Radio Model) and RT5's was also used to do a demonstration. There were over thirty people from the South African Navy, Maritime Reaction Squadron, 4 Special Forces and SAAF 22 Squadron that participated in this demonstration.

ASSISTANCE WITH CORE MINE WARFARE CAPABILITY IMPLEMENTATION

IMT provided technology support to Operation PHOENIX 3 in Mossel Bay from 5 to 14 October 2016. The objective of the SA Navy Exercise was to survey the approaches of Mossel Bay harbour in a simulated Q-Route survey. IMT supported the SAN with the following functions:

- Generated side-scan survey data for the channel approaches. Although these are not the official Q Routes, they simulate a Q Route survey;
- Executed data analysis of sonar data in order to train the designated SAN Mine Counter Measure operators;
- Data management using Geospatial Information System Technology as platform;

- Providing Maritime Rapid Environmental Assessment Support, mainly in weather and sea conditions predictions.

The aforementioned functions were performed by four IMT technical personnel and two IMT seagoing support personnel. IMT highlights from Operation PHOENIX 3 were as follows:

IMT was able to survey, every day, even during adverse weather conditions. This was mainly due to good planning and the commitment of IMT personnel. All objectives for the survey were achieved and exceeded by IMT. This exceeded the SAN expectations, based on previous experiences with their own systems. The new IMT rigged hull inflatable boat performed very well for the tasks, especially in adverse weather conditions. There was excellent cooperation and camaraderie between IMT and SAN personnel, resulting in the strengthening of the working relationship between the SAN and IMT.

PROVIDE A LIGHTWEIGHT EXERCISE TORPEDO DEMONSTRATOR

A development plan for a lightweight exercise torpedo for the SAN has been compiled. Based on this plan, development of this torpedo has started as part of an effort to revitalise anti-submarine warfare within the Frigate Squadron, in support of the Director Fleet Quality Assurance.

TORPEDO EXPULSION MECHANISM

The purpose of this project was to investigate options for the emergency expulsion of a combat torpedo. Measurements were performed in the IMT tank using the experimental launch frame to determine the angle at which the torpedo will slide out of the submarine torpedo tube under its own weight.



Experiment Launch Frame for Torpedo Expulsion Mechanism

SIGNATURE MANAGEMENT SUPPORT

IMT provided diagnostic support on a gearbox noise problem on Frigate F146 (SAS ISANDLWANA). Vibration measurements were performed and confirmed alongside and at sea. The measurement, analysis and results were presented in a detailed report and discussed with the SAN client. The SAN client informed IMT the gearbox Original Equipment Manufacturer (RENK) were able to quickly find and rectify the problem aided by the results from IMT's report.

IMT also provided diagnostic support on the gearbox noise on Frigate F147 (SAS SPIOENKOP). The problem was fixed by tuning the diesel engine injectors. A follow up measurement of water-borne noise was performed using the IMT Waterbug facility. The report confirmed that the acoustic signature was normal, following the engine adjustments.

IMT has demonstrated its capability to support the SAN with acoustic and vibration diagnostic measurements, analysis and interpretation.

Five SAN vessels were acoustically measured using the IMT Waterbug facility during Exercise REDLION. A detailed analysis and report was presented to the Director Fleet Quality Assurance. It was a valuable learning exercise for IMT and the SAN in acoustic sound-ranging procedures and execution.

IMT has supported the SAN Underwater Ranges with the upgrade of the Shore Degaussing Range facility. IMT has progressed well with the acquisition of a new computing system, control and measurement systems, magnetic sensors, cables and other items. These systems were delivered and initial set-work activities were performed at the Shore Degaussing Range facility. This work will replace the measurement control and system for the large trolley and the earth's field cancellation coil systems.

IMT provided the following maintenance support to the SAN Underwater Ranges at its ranging facilities:

- The Multi Influence Range (MIR) experienced problems. IMT performed systematic fault finding and identified the main sea cables as the problem. Sections of the main sea cable were recovered, tested

and IMT has recommended repair solutions to the SAN client.

- The Multi Influence Range (MIR) Uninterrupted Power Supply batteries were replaced.
- The batteries for starting the Magnetic Treatment Facility diesel generators were replaced.
- A new inverter for the Multi Influence Range (MIR) shore system was replaced and set to work.
- The Multi Influence Range (MIR) Underwater Junction Box was lifted/recovered for a short period (one day exercise) using a moored Tug to assist with the fault finding of the Multi Influence Range (MIR).
- Conducted an audit of the four SAN frigates on-board degaussing systems. IMT submitted a report to the SAN client.
- Evaluated new software to import "other (not MIR data)" recorded magnetic data into the Multi Influence Range (MIR) magnetic model. The evaluation confirmed magnetic data can be imported into the Multi Influence Range (MIR) model.

SUBMARINE ORDINANCE SUPPORT

IMT provided support during the combat torpedo firing. This included assistance with the torpedo and target preparation, as well as trial planning.



Successful sinking of a Target Ship

Two IMT-designed acoustic targets were installed on a target ship for the combat torpedo trial. The acoustic targets performed well, with the torpedo locking on immediately after launching, and then the torpedo exploding and sinking the target.

A portable tester was developed and qualified to test the combat torpedo battery on the quayside before loading it into the submarine.

The IMT high current battery discharger was integrated into the IMT battery charger/discharger system.

IMT designed a magnetic target for the SAN torpedoes. This target activates the magnetic fuse of the torpedo, and can be used in combat trials in place of a ship, significantly reducing the cost of a trial. An experimental version was tested and characterised with a torpedo at the workshop; the next step will be to test it against an exercise torpedo in a sea trial.

Other tasks performed were:

- Re-engineering of a power supply for the final test stand;

- Four exercise battery spacer cells were manufactured;
- Re-trimming of converted exercise torpedoes;
- Obsolescence study for the Torpedo Countermeasure System (TCM);
- A lifting device was manufactured for the TCM launch container;
- An SUT technical course was given to all the SANAD SUT workshop technicians;
- A workshop was held with LEONARDO (formally WASS) to consolidate IMT's TCM simulation results with theirs, based on the ORACOM simulation tool; and
- The SUT Torpedo special-to-type test equipment was calibrated.

PREPARATION, INSTALLATION AND SETTING TO WORK A TWIN LIGHTWEIGHT TORPEDO LAUNCHER

IMT successfully launched the lightweight drill torpedoes. This trial was performed using the reconditioned twin tube launcher manufactured by IMT. The launcher will be installed on a frigate to perform launches of the lightweight exercise torpedo.



Successful launch of Lightweight Drill Torpedo

HYDROGRAPHIC OFFICE/SAS PROTEA TECHNOLOGY SUPPORT

Two new technicians have been appointed in the Environmental Characterisation Domain. They were immediately put to work and are performing well. One of the tasks given to them was to perform a temperature calibration check on the SAS PROTEA's scientific conductivity temperature depth profiler.

MARITIME RAPID ENVIRONMENTAL ASSESSMENT (MREA) SUPPORT TO THE SAN

In summary, MREA is 'the timeous collection, analysis and provision of tactically and operationally useful environmental data within a tactical time scale, to achieve battle space dominance. IMT has been providing an MREA service to the SAN within various exercises and operations, within the 2016/17 financial year.

A decision was made at the SAN PLANCOM in February 2017 to officially implement the MREA capability within the Fleet. This is a milestone in the lifecycle of the project, and is testament to the close working relationship between IMT and the Fleet.

MARITIME DECISION SUPPORT TO THE SAN

A very successful technology conference, on behalf of the SA Navy, was held on 18 and 19 August at IMT, in preparation of a main technology conference that is planned for the 2017/18 financial year. The technology conference objective was to analyse the Maritime Technology Strategy requirements of the SAN for the next 20 years.

DIRECTOR FLEET QUALITY ASSURANCE SUPPORT

IMT conducted Radar ESM system sensitivity and analysis trials on SAS AMATOLA from IMT's rooftop facilities during August 2016. NEMAS did not have the transmission capability in the bands 4-18GHz. IMT rebuilt an old 7.5-12GHz travelling wave tube (TWT) amplifier to transmit in I-Band, and used the NEMAS 1-4GHz amplifier to conduct the trials in EF-Band. The trial was successfully conducted from the IMT roof to the SAS AMATOLA lying at T-Wall. The test setup creates the opportunity to do more advanced electronic warfare testing from MARMITE in the future.

THE ULTRASONIC BROKEN RAIL DETECTOR (UBRD)

The Ultrasonic Broken Rail Detector (UBRD) system is an autonomous system that detects breaks in railway lines, reports them to an alarm terminal, and in so doing, prevents costly derailments of trains. The UBRD system has been developed by Armscor in close collaboration with Transnet, and with the CSIR providing the transducer for the system. It was installed in 2014 on Transnet's iron ore line (846km), running from Sishen to Saldanha. Many rail breaks have been detected on this railway line since installation, saving Transnet and the country millions in potential damage costs.

Armscor, Transnet and the CSIR (transducer) are also collaborating in the development of a new generation UBRD that will be even more cost effective and efficient. Most of the work has been completed. Final completion is planned for March 2018. The Department of Science and Technology (DST) has provided most of the funding for this development work.

Strong interest has been shown in UBRD by the international rail market. Armscor completed a test installation in India in March 2017, and it is currently being evaluated by Indian Railways. Indications are that Indian Railways will make a decision before the end of 2017 on large-scale deployment of UBRD on its rail network. Indications are that the requirement from Indian Railways will be for the installation of the UBRD to cover approximately 2 000km per annum, once approved by Indian Railways.

The success of the UBRD programme is evidence of what could be achieved when government departments collaborate on flagship programmes, taking a team South Africa approach.

DEFENCE DECISION SUPPORT INSTITUTE (DDSI)

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

The SA Army Portfolio of projects is funded under a Memorandum of Agreement that specifies the delivery of specialist support services to the SA Army. The services in this portfolio are delivered to the Directorate: Army Products Systems Management, focusing on supporting the Products Systems Managers (PSMs) within the Directorate. Although the main focus is on the operational phase of products systems, DDSI supports the

PSMs throughout the lifecycle of products systems. The services are supplied in the areas of project management, baseline management, systems engineering, logistics engineering and other specialty knowledge areas as may be required, such as obsolescence management.

The Research & Analysis (R&A) Domain provides defence decision support to the Office of the Minister, Defence Secretariat and Joint Operations, as well as support to Armscor and the Africa Truck. Memorandums of Agreement (MOAs) with the Defence Secretariat and Joint Operations exist for these requirements. The R&A Domain supports the development and alignment of the ministry with functional analysis and process development to increase effectiveness. Support is also provided to the Department of Military Veterans' turnaround, with specific focus on the database and business processes reengineering. Facilitation and participation in the Reduction of Conflict in Africa workshops and other interaction, has created contacts in Africa and at the national level for peace missions. This has opened possible opportunities in other government departments such as DIRCO. The main focus of R&A is currently supporting the Defence Review implementation. This includes support and guidance within the Permanent Defence Secretariat Planning Team, as well as in the Military Defence Review Implementation Team. Analysis and facilitation is taking place in support of this effort, with the development and refinement of the future Force Design options with Joint Operations, and participation from the rest of the SANDF.

The purpose of the Africa truck project, phase one, was to establish a group of specialists in Armscor, CSIR and Denel that can help Denel Vehicle Systems establish a logistics supply support family of vehicles manufacturing plant. The output of the project was a concept vehicle demonstrator with a data pack as first order baseline for this vehicle. This objective was achieved. The proposal for this project was presented to the Military Command Council on 4 July 2016, where approval was granted to continue. A demonstrator vehicle was displayed after two-and-a-half months at AAD 2016, demonstrating that this 'fast track' development process can be achieved. The relationship between Africa Truck and Project VISTULA was finalised by the COD, and a decision was made to use the Vistula project going forward with this requirement. Progress on this initiative was presented to the Military Command Council on 3 April 2017, where a decision was made to appoint the Integrated Project Team as a matter of urgency, define an accelerated process within approved governance structures and continue with the Africa Truck Project as a matter of urgency.

FLAMENGRO (FLUID AND MECHANICAL ENGINEERING GROUP)

Flamengro is a Computer Aided Engineering (CAE) Centre of Excellence and a strategic capability to the DOD, which is mandated to provide computer-based simulation, as well as failure analysis support and a consultative service to programme managers, to the DOD and the defence-related industry during product and system development. Flamengro provided consultative services to a variety of stakeholders, including weapon effect on target for the Artillery project team, propellant performance in high temperature environments for the Denel PMP, and a variety of ammunition and weapon-related queries from Armscor and the SANDF, including bore-evacuator performance, procurement strategies for 27mm ammunition for the GRIPEN, and yaw measurement for SAAF ammunition.

The following highlights are to be noted:

- The Extended Range Munition project is nearing demonstration of the technology demonstrator prototype in a static environment. The supersonic intake and nozzle had been characterized across its entire operating envelope. A 76-mm technology demonstrator will be fired from a Rooikat weapon in 2017.
- Flamengro assisted with the design of a demonstrator Penetrator Enhanced Lethal Effect (PELE®) type 12.7 mm prototype ammunition. This ammunition will provide armour piercing with highly lethal fragmentation capability without the use of high-explosive. In addition, Armour Development and Flamengro continued to collaborate on the test and evaluation of spaced-armour configurations. The test setup used for the PELE® demonstrator was successfully adapted for use in the evaluation of spaced-armour configurations. In addition, Armour Development and Flamengro continue collaboration on the development of ever-lighter spaced-armour for light and medium armour applications. Flamengro is currently providing design and analysis services to Denel Dynamics on a variety of missile-related applications including the trade space analysis of Beyond-Visual Range missiles and the aerodynamic characterization of the active defence missile system. Flamengro provided several test and measurement services to various Denel entities during the last financial year indicating good growth in this business segment. Capabilities were developed internally to provide cost-effective and rapid assessment of ballistic measurements for applications not previously possible including rapid-fire of small calibre weapons.

ARMSCOR DOCKYARD

The Dockyard is responsible for the provision of maintenance services to the SA Navy for its warships. The Dockyard successfully provided maintenance and repair services to the SA Navy on various configuration products systems, ranging from tugs, small craft, frigates and submarines to support vessels in accordance with the Dockyard's available capacity and capabilities. The services covered both planned and unplanned projects.

Furthermore, the Dockyard is also responsible for facilities upkeep and providing strategic support services, including docking services, power supply, fuel support and other essential services to the SA Navy.

The Dockyard's performance is based on a Service Level Agreement agreed to 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 these mutually agreed milestones. This has been achieved through both the use of the Dockyard's own resources and insourcing/outsourcing support from industry. The challenge with the latter has been the erosion of capabilities, costs and lost opportunities for knowledge and capability transfer.

Funding remains one of the major challenges of the Dockyard, to ensure it maintains its optimal resource capabilities, both in terms of personnel and infrastructure. The current funding levels render the Armscor Dockyard unable to optimally maintain the SA Navy's product systems and effective upkeep of the Dockyard infrastructure.

The transfer of the Dockyard from Armscor to Denel is progressing and awaiting the necessary approvals. This process will culminate in a business model whereby the SA Navy will have sovereign control, Armscor will become the Contracting Authority in accordance with its mandate, whilst Denel will manage and operate the capability. In this process, Denel will have a strategic partner to ensure the much needed investment, capability rejuvenation and commercial involvement. Finalisation of this process is planned for the next reporting period.

Armscor has resolved to make permanent a number of employees in critical positions of the Dockyard operation, who were previously employed through labour brokers. This has primarily been to ensure operational stability and compliance with legislation. This has resulted in a budget shortfall, for which funding is being motivated.

PROJECT HIGHLIGHTS

A number of projects were undertaken during the reporting period, both planned (Refits and Docking, and Essential Defects). The projects were executed in accordance with the respective user requirement, tasking and statements of work.

SUBMARINES

Submarine knowledge and capability within the Dockyard remains a high priority. Ensuring that operational readiness is maintained within the product system life-cycle, every possible effort must be made to ensure that sustainable funding is made available to the Dockyard to rejuvenate the submarine maintenance capability. To this end, funding amounting to R26m for the establishment of the submarine repair group has been made available by the SA Navy as part of the Dockyard 2017/18 allocation, to ensure the rejuvenation of the submarine repair capability.



Submarine

SAS CHARLOTTE MAXEKE (REFIT)

The refit for this submarine has been delayed due to the South African Navy funding challenges. The project was initially planned to commence in April 2015. The vessel has been stripped and preserved, awaiting funding to start the project. The Dockyard has commenced with the establishment of the submarine internal repair capability, as part of the overall capability rejuvenation plan.

SAS MANTHATISI DOCKING ESSENTIAL DEFECTS (DED)

The DED commenced in October 2016 and was scheduled to be completed in February 2017. The project was completed in March 2017 due to delays in the arrival of spares imported to address equipment failures.

FRIGATES

SAS MENDI DOCKING AND ESSENTIAL DEFECTS

Progress on the DED is slow due to the non-availability of funds for the procurement of spares and material

required to complete the project. Unscheduled docking requirements/tasking to other configuration vessels also impacted on this project. The completion of this project is dependent on the provision of funding by the SA Navy.

PATROL VESSELS

SAS MAKHANDA DOCKING AND ESSENTIAL DEFECTS (DED)

The DED was executed in Naval Base Durban in support of the SA Navy Durban Revitalisation strategy. The project marked the first DED to be successfully executed and completed by the Dockyard outside Simon's Town. The Dockyard had to develop a new project strategy to suit the geographical location, given the capability and resource challenges in the Durban facility, so as to ensure project success.

TUGS

TUG UMALUSI DOCKING AND ESSENTIAL DEFECTS (DED)

This project commenced on 25 May 2016 and was planned to be completed on 25 August 2016. Numerous supplementary tasks were raised by the SA Navy during the project that led to scope growth against the initial

statement of work. The additional work included significant repair on the six tanks, which had an impact on the completion of the project resulting in the revision of the completion date to April 2017.



Tug Umalusi

MARINE COUNTER MEASURE VESSELS

SAS UMZIMKHULU DOCKING AND ESSENTIAL DEFECTS (DED)

The project commenced in July 2016 and major tasking included the removal and replacement of port and starboard engines, as well as deck repairs. The project was completed in November 2016, in line with the agreed timeline.

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

- SAS MAKHANDA (DED) = 95%
- SAS UMZIMKHULU (DED) = 98%
- SAS MANTHATISI (DED) = 97%
- SAS MENDI (DED) = 96%
- TUG UMALUSI (DED) = 90%
- AVERAGE: = 95,2%

The project financial performance against the approved financial authority budget was 97,1%.

INFRASTRUCTURE UPKEEP

The replacement of the dry dock pumps, as well as cranes, was undertaken during the year under review as part of the Dockyard infrastructure rejuvenation. The dry docking facilities were in full use during the reporting period to accommodate the SAN fleet, as well as a number of commercial vessels.

The dry dock, syncrolift and other equipment, remain essential in support of the required maintenance of the SA Navy Fleet, as well as the Armscor turnaround strategy supporting the commercial initiative. The Dockyard facilities, however, are in serious need of renewal and upgrades. It is critical that these strategic assets be maintained in operational condition.

SUPPORT FUNCTIONS:

» QUALITY

The Corporation strives to deliver products and services of high quality to all its clients, while ensuring the safety of its employees and minimising the negative impact to the environment in sourcing such products or services.

This is achieved through implementing and maintaining the Safety, Health, Environment and Quality (SHEQ) management systems that are certified under different schemes of the International Organisation for Standardization (ISO).

In order to ensure that the process of appointing service providers, product developers/manufacturers and suppliers is fair, transparent and equitable, Armscor has a dedicated team of quality professionals that oversee the contractor source selection process (tender process). Key employees involved in the tender process are continually trained to improve the assurance and management of this process.

QUALITY MANAGEMENT SYSTEM

Armscor has maintained its certification under ISO 9001:2008 (international standard for quality management). Preparations have also commenced to transition to the new version of this standard, which is ISO 9001:2015.

In order 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.

The Dockyard's annual ISO/SANS 9001:2008 Quality Management System surveillance audit via SABS Commercial was undertaken with the purpose of

establishing whether our Quality Management System was in compliance with the international standard requirements. The Dockyard was certified with the ISO/SANS 9001:2008 Quality management system certificate valid for three years.

PRODUCT QUALITY ASSURANCE

Product quality assurance services are provided by Armscor Quality Representatives on a second party or third party basis. The Department of Defence remains the primary client for second-party quality assurance, with this service being extended to other organs of the State as and when needed. Governments of ally countries and private entities receive third-party quality assurance services at a fee to contribute to both the sustainability of the Corporation, and continual skills enhancement of the quality team.

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 product development. A large percentage of our service providers and contractors have performed very well in this reporting period.

SAFETY, HEALTH AND ENVIRONMENT (SHE)

The North-West University was contracted to perform SHE legal gap assessments across all Armscor facilities, so as to provide assurance of the level of compliance to legal and regulatory requirements for safety, health and environment.

The Gerotek facility of Armscor has once again maintained its certification against ISO 14001 (Environmental Management System) and OHSAS 18001 (Occupational Health and Safety Assessment Series for Safety and Health Management system). Other sites are at different stages of the certification process under the same schemes. Armscor's canteen at head office has maintained its certification under ISO 22000 for food safety.

A safety, health and environmental external legal compliance audit was undertaken and it provided

the Dockyard with an update in terms of its current compliance levels. Some of the findings were recorded within the category of the National Environmental Management Act due to recent changes within the respective SHE legislative framework. The audit confirmed that a number of operational compliance obligations have been met with the reportable findings being integrated within a formal management plan for appropriate corrective action to be instituted.

Progress was made on the health management system with the focus on the analysis and evaluation of the

occupational health legal compliance, current employee health status and the possible future occupational disease liabilities. Based on the external health service provider's data analysis, it appears that the overall health status of the Dockyard has improved compared to the previous reporting period.

The Armscor top management is committed to safety, health and environment management, hence all critical SHE-related activities are monitored periodically through the SHE Executive Committee, which is chaired by the Chief Executive Officer.

» CORPORATE COMPLIANCE

This proved to be an exciting yet challenging year, in view of the turnaround opportunities to solidify governance and strengthen compliance regime.

The publication of the latest B-BBEE Codes of Good Practice posed a threat of a reduction in the rating. Even though it was envisaged the score will be lower, Armscor managed to secure a level 4 status.

The implementation of the National Treasury instructions remains a challenge, as it increased areas of compliance. However, necessary exemptions were obtained and implemented, and the rest of the regulations

incorporated into existing internal processes, as well as communicated widely within the organisation.

The existing internal compliance footprint is limited and focused on Armscor as an acquisition agency for the DOD. With the new Armscor outlook, this footprint poses a huge risk, and needs to be expanded immediately to cover new areas of potential business for Armscor. This would mean acquiring new capabilities in some instances, e.g. legal advisor/s who have been exposed to commercial business. Therefore, the plan is to broaden our compliance footprint to include doing business across the entire continent of Africa.

PROMOTION OF ACCESS TO INFORMATION (PAIA)

Received from:	Date of Receipt	Request	Status
South African History Archives (SAHA)	24 October 2015	This request relates to all the Armscor Board of Directors Minutes from 01 January 1976 to 31 December 1994.	This request has been granted in part with the understanding between Armscor and SAHA that the information will be released in batches due to its voluminous nature.
South African History Archives (SAHA)	January-March 2016	Armscor is in receipt of 5 various requests relating to the following: Management Board Minutes, Inventory List, Contract Registers, Annual Reports and Foreign Procurement. The information requested dates between 1976-1994.	The requested records are undergoing a security vetting process. SAHA is being kept abreast of the developments.
Sumaiya Aboo	August 2016	Armscor received a request from Ms Aboo, a PhD student at the School for Oriental and African Studies in London, UK, for information on the history of Armscor.	This request has been granted and the requester furnished with the record requested.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

BEE SPENDING REPORT

ACQUISITION

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R 6 052 202 067	R 5 954 455 941	98.38%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE%	TARGET%
Above R35m turnover	R 2 85 477 322	R 2 961 383 527	48.93%	-
QSEs	R 370 489 878	R 454 916 966	7.52%	15%
EMEs	R 147 807 446	R 160 568 984	2.65%	15%
Specialised above R35m	R 2 639 995 201	R 2 372 537 043	39.20%	-
Non-compliant	R 35 432 210			-
BOE >51%	R 692 184 476	R 545 287 006	9.01%	40%
BWOE >30%	R 576 694 834	R 175 958 381	2.91%	12%
BOE >25%	R 1 206 636 683	R 722 817 946	11.94%	-
Foreign	R 1 594 602 694			
Military Veterans	R 8 702 806			

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

OPERATING BUDGET

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R 87 491 070	R 92 667 414	105.92%	80.00%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE %	TARGET %
Above R35m turnover	R 48 103 053	R 55 925 611	63.92%	-
QSEs	R 12 558 976	R 16 082 508	18.38%	15%
EMEs	R 11 745 783	R 14 889 984	17.02%	15%
Specialised above R35m	R 5 556 639	R 5 692 333	6.51%	-
Non-Compliant	R 1 302 249		-	-
BOE >51%	R 22 463 177	R 19 179 173	21.92%	40%
BWOE >30%	R 7 645 808	R 5 863 248	6.70%	12%
BOE >25%	R 46 180 874	R 26 275 938	30.03%	-
Unknown	R 8 167 398			

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

DOCKYARD

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R 24 684 632	R 26 124 230	105.83%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE %	TARGET %
Above R35m turnover	R 4 609 857	R 4 327 370	17.53%	-
QSEs	R 5 406 995	R 7 007 704	28.39%	15%
EMEs	R 9 849 536	R 12 454 445	50.45%	15%
Specialised above R35m	R 1 542 055	R 1 542 055	6.25%	-
Non-Compliant	R 2 580 787		0.00	-
BOE >51%	R 13 339 897	R 11 910 214	48.25%	40%
BWOE >30%	R 7 123 815	R 4 902 421	19.86%	12%
BOE >25%	R 17 498 344	R 13 247 144	53.67%	-
Unknown	R 108 250			-

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

RESEARCH AND DEVELOPMENT

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%	TARGET%
R143 565 451	R156 329 147	108.89%	80%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE%	TARGET%
Above R35m turnover	R 29 123 353	R 26 931 351	18.76%	-
QSEs	R 17 279 363	R 22 706 452	15.82%	15%
EMEs	R 33 223 832	R 36 304 133	25.29%	15%
Specialised above R35m	R 61 159 766	R 75 387 211	52.51%	-
Non-Compliance	R 2 779 137			-
BOE >51%	R 23 177 399	R 21 196 848	14.76%	40%
BWOE >30%	R 10 179 516	R 6 943 488	4.84%	12%
BOE >25%	R 41 273 225	R 27 464 652	19.13%	-
FOREIGN SUPPLIERS	R 729 911			

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

Procurement from Qualifying Small Enterprises (QSEs), Exempted Micro Enterprises (EMEs) black owned and black women-owned suppliers in Acquisition remains a challenge; and therefore interventions are required to address this. The coming into effect of the Defence Sector Charter will improve the said areas tremendously. With regards to the operating budget, the targets for QSEs and EMEs were met, however procurement from at least 51% black-owned enterprises and at least 30% black women-owned, did not meet its targets and this requires improvement. The Dockyard has achieved all its targets. Research and Development has met the EMEs and QSEs targets. Procurement from black suppliers is still a challenge. An improvement is expected in the new financial year with the implementation of the Preferential Procurement Regulations.

DEVELOPMENT OF DEFENCE SECTOR CHARTER FOR THE DEFENCE INDUSTRY

In April 2016, the Charter Steering Committee was established to drive the development of the Charter process. Public proclamation was gazetted by the Minister of Trade and Industry to inform the public about the intention to develop the Defence Sector Charter (Charter). There were robust stakeholder consultations to obtain input, followed by the adoption of the Charter by the Steering Committee and stakeholders in January 2017.

During the month of March 2017, the Minister of Defence and Military Veterans approved the Charter, which was then submitted to the Minister of Trade and Industry, in order to allow for it to follow the dti process of public comments and gazetting.

ARMSCOR'S B-BBEE STATUS

The verification of Armscor's B-BBEE status was finalised in February 2017. Armscor was measured on the latest B-BBEE Codes of Good Practice with stringent targets, and obtained a level 4 certification.

GAZETTED BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) REGULATIONS 2016

The Department of Trade and Industry gazetted the B-BBEE Regulations in June 2016, which provide guidance on the implementation of the B-BBEE Act. This includes deadlines for State Owned Companies (SOCs) B-BBEE reports and financial statements submission to the B-BBEE Commissioner. The SOC's are required to file audited annual financial statements and annual reports with the B-BBEE Commission within thirty days of the approval of such audited annual financial statements and annual report.

PREFERENTIAL PROCUREMENT REGULATIONS 2017 (PPPFA)

National Treasury issued draft Preferential Procurement Policy Regulations for public comments. The regulations support transformation, specifically the advancement of designated groups and were promulgated in January 2017 and made effective on 01 April 2017.

Armscor is committed to implementing these regulations fully to the advantage of the country's economy and particularly for the growth of South African Defence Industry. To achieve optimal benefit from the application of the new regulations, a Practice Note was issued to guide the organisation on the implementation of the regulations and awareness sessions were conducted throughout the organisation.

MILITARY VETERANS

The B-BBEE Reporting System was enhanced to report Military Veterans spend and this assists in the visibility and tracking of the Military Veterans procurement spend and taking appropriate measures to improve it. The revised Preferential Procurement Regulations promote the procurement spend on military veterans.

PROCUREMENT SECRETARIAT

The effectiveness and efficiency of the tender administration function is ensured by providing inputs on the answerability of the tender process. The number of new requests for offers issued on behalf of the DoD are slightly declining on an annual basis.

The number of request for offers issued in the 2016/17 financial year was 301 compared to 344 in the 2015/16 financial year.

The number of potential offerors who requested tender documents was 2866 in the 2016/17 financial year and 3194 in the 2015/16 financial year.

The number of offers received was 839 in the 2016/17 financial year and 883 in the 2015/16 financial year.

The decline in the offers received is line with (in in proportion to the) the number of offers issued.

There has been no allegations indicating the unfairness of the Armscor tender processes; in particular the administration function.

COMPLIANCE AND RISK MANAGEMENT

The financial year under review has seen the Compliance and Risk Management function being strengthened with the establishment of processes to assist with implementing compliance and risk principles. Nonetheless, implementation of a Compliance Management regime remains a challenge, and it has become even more essential considering Armscor's turnaround strategy, which includes entering new markets.



CORPORATE RISK REGISTER

Risk Condition	Contributing Factors	Progress to date
Inability to produce effective, reliable, accurate and timely data for better decision making.	Unintegrated IT systems, outdated technology leading to ineffective ICT and application systems, ineffective capability and lack of technical skills to implement business intelligence tools.	Implementation of the ERP remains a concern. The first tool is yet to be implemented, and this has resulted in the revision of the project plan timelines.
Unavailability of IT services, that may result in the inability of the Corporation to operate.	Ineffective system maintenance, lack of disaster recovery site and capability, natural or man-made disaster.	The risk is viewed as high due to lack of clarity on the disaster recovery capability of Armscor. There is an existing contract with Telkom to circumvent the situation.
Insufficient and unstable funding (sustainability of the Corporation).	Government-wide cost-cutting measures, inadequate funding model, misalignment of the SLA to the service delivery requirements.	Reduction in budget deficit was achieved.
Inability to deliver acquisition-related services as mandated by the Armscor Act and SLA.	Ineffective implementation of the retention strategy, outflow of skills due to retirement, insufficient pool of competency and experience, inefficient processes and inadequate service requests (funding and operational requirements).	The levels of resignation has reduced: staff skilling remains a key priority. Certain acquisition-related processes have been improved and set timelines have been agreed upon.
Lack of valid security clearance that may lead to the exposure of classified information, collapse of decision making and stoppage of projects.	Infrequent sitting of the security vetting panel, inadequate internal capacity and competency, outsourcing certain processes due to lack of resources.	The risk remains high even though there has been a significant improvement in the working relations with Defence Intelligence (DI) and Armscor: the number of employees to be vetted remains high.
Ineffective Records Management.	Decentralised registries leading to multiple unapproved file plans, storage of business records in multiple locations, limited space for the storage of classified records, inability to archive imaged records.	The risk remains high due to the decentralised registries internally.
Leakage of information (security classified).	Conflict of interest, disregard of security consideration, insufficient of security awareness, deliberate leakage of information.	The risk remains high, even though there are continuous awareness sessions taking place and the introduction of the Conflict of Interest practice.
Data breach: security threats that compromise availability, confidentiality and integrity of services.	Outdated technology, inadequate monitoring system, lack of IT security assessment on systems, lack of capacity and capability (skills and resources) to support information security function.	The risk has improved with the establishment of the new web system and continuous vulnerability testing. Cross skilling and training was conducted to increase capacity.
Non-compliance with SHE statutory and regulatory requirements.	Inadequate understanding of SHE requirements, insufficient SHE requirements in the contracting document.	The risk likelihood has improved, but the impact remains high due to the second phase of implementing the SHE audit recommendations.

Departmental risk assessments continued to take place in order to inform the Corporate Risk Register, which was approved by the Board of Directors in December 2016. The Corporate Risk Register is considered a live document, and it is continuously updated.

The establishment of the Compliance and Risk Management Executive Committee has strengthened the organisation's governance structure, with three meetings being held over the reporting financial year. Risk champions representing each department were nominated and taken through a risk management training programme.

Fraud risk management became a key factor, and this was addressed through awareness sessions during the month of November 2016. The campaign was concluded with a fraud awareness workshop addressed by various speakers.

In order to build confidence in the fraud reporting process, an external service provider was appointed to manage the fraud line. This has proven to be a success due to the number and nature of reporting that takes place. This shows how important ethical issues are to the employees, and any form of unethical conduct is frowned upon and reported.

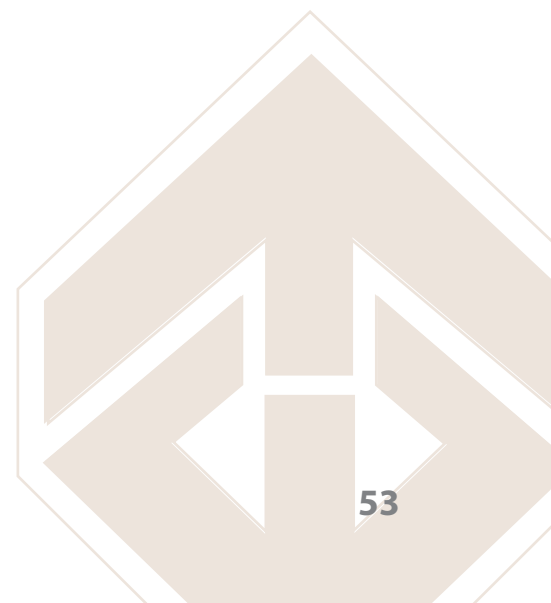
A campaign on 'Living our values through ethical principles' has commenced, and will run through to the next financial year.

ARMS CONTROL COMPLIANCE

In the period under review, the Armament, Development, Manufacturing and Services "ADMS" (NCACC registration) permits for Alkantpan, Gerotek and Protechnik Laboratories were successfully renewed, while the renewal of IMT's permit is in progress. There is a requirement to amend the current ADMS permit for Armscor in order to align it with the new turnaround and sustainability initiatives. This application is in progress.

No major non-compliances were identified from both the Directorate of Conventional Arms Control and the National Convention of Arms Control Inspectorate. All end-user certificates/non-transfer (EUC/NTC) certificates and end-user undertaking (EUU) that were processed by Armscor were accepted by the requesting countries.

The Arms Control and Asset Tracking System (ACATS) has been fully operational throughout the financial year with full support from IT. There was an urgent requirement to upgrade the ACATS system in order to align it with the newly introduced 'Temporary Two Way' permit. This requirement has been addressed in-house by an official who received training from the service provider who developed the ACATS system for the organisation.



» HUMAN RESOURCES

Significant progress was achieved in the HR delivery and objectives. There was quite an increase in the attraction of new graduates, and an increase in the bursary intake, through additional funding support from the Ledger Fund and the Armscor Defence Bursary Scheme.

There was great progress in the promotion of the identified successors, however, the employee satisfaction survey resulted in a slight decline, which was due to the

numerous changes taking place in the organisation, e.g. turnaround and restructuring.

STAFF COMPOSITION

Armscor's staff profile, including Armscor Dockyard, as at 31 March 2017, per broad band, race and gender, is indicated below:

ARMSCOR STAFF PROFILE - INCLUDING ARMSCOR, R&D AND DOCKYARD 31 MARCH 2017 (PERMANENT EMPLOYEES)

BB	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
	M	F	M	F	M	F	M	F	M	F	
EX	6	2	0	0	0	0	2	0	8	2	10
SU	17	13	2	0	2	1	17	2	38	16	54
MP	105	51	20	4	20	3	151	29	296	87	383
ST S	82	100	32	13	7	9	36	62	157	184	341
AS	86	122	197	28	0	5	27	17	310	172	482
OS	81	39	87	19	1	0	5	0	174	58	232
TOTALS	377	327	338	64	30	18	238	110	983	519	1502
%	25.10	21.77	22.50	4.26	2.00	1.20	15.85	7.32	65.45	34.55	100
%	57.02		9.26		4.39		29.32				
%	70.68						29.32				

ARMSCOR STAFF PROFILE - ARMSCOR AND R&D 31 MARCH 2017 (PERMANENT EMPLOYEES)

BB	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
	M	F	M	F	M	F	M	F	M	F	
EX	6	2	0	0	0	0	2	0	8	2	10
SU	17	11	2	0	2	1	16	2	17	14	51
MP	100	49	15	4	20	3	149	29	284	85	369
ST S	78	98	10	12	7	9	25	62	120	181	301
AS	55	103	30	17	0	4	6	16	91	140	231
OS	51	27	5	2	0	0	0	0	56	29	85
TOTALS	307	290	62	35	29	17	198	109	596	451	1047
%	29.32	27.70	5.92	3.34	2.77	1.62	18.91	10.41	56.92	43.08	100
%	57.02		9.26		4.39		29.32				
%	70.68						29.32				

EMPLOYMENT EQUITY

The strategic tool that Armscor utilises in order to transform its workforce profile is the Employment Equity Plan. The term of the plan is set from 1 April 2014 to 31 March 2017 and implementation is monitored frequently by the duly established Employment Equity Committee (EEC). This committee includes members of the Executive, among other categories, and that provides robust monitoring and evaluation interventions. As a result, the organisation is able to swiftly integrate transformation into a corporate plan. The main focus of transformation remains women and persons with disabilities. With the current interventions in place, the new plan will realise an improvement in those areas that are still underrepresented.

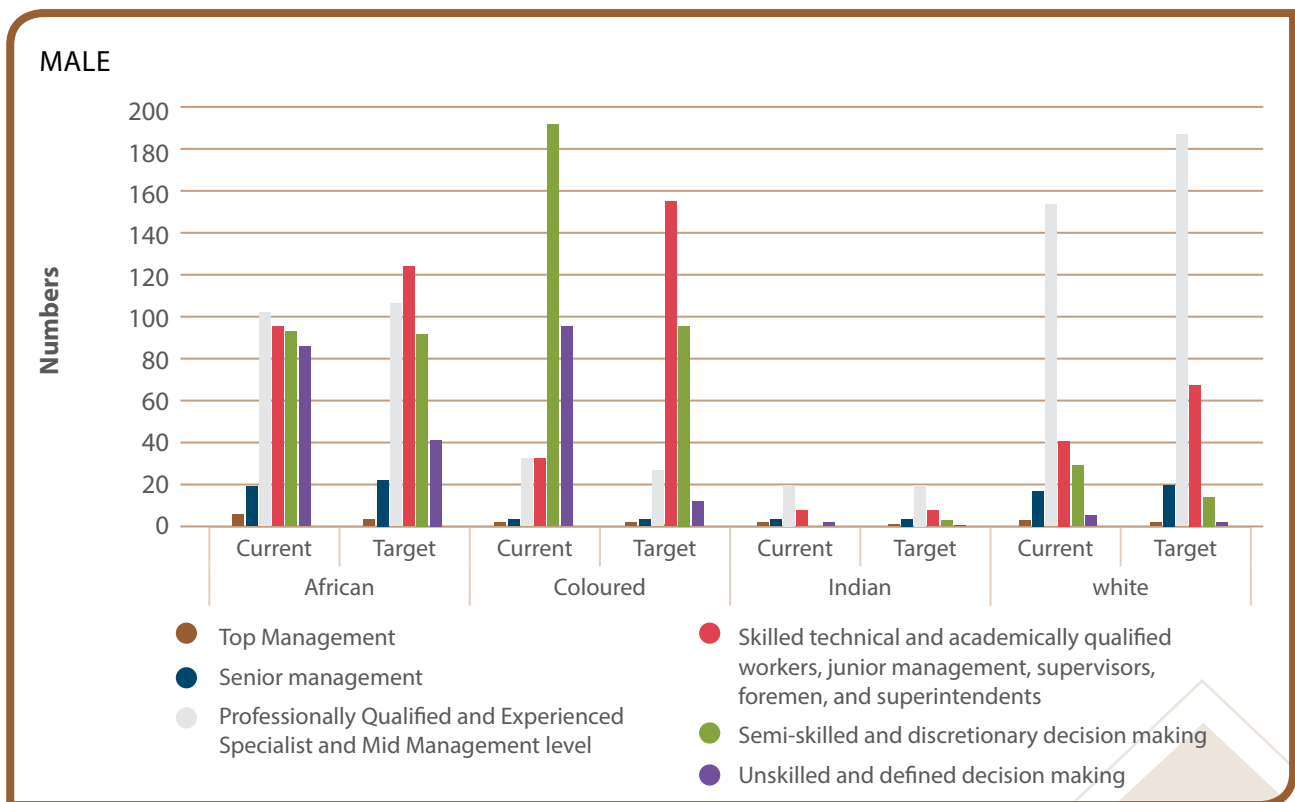
MONITORING AND EVALUATION

The Employment Equity Committee remains focused to ensure that comprehensive transformation takes place within the organisation. The successive committee was elected and inducted in order to capacitate its members to take up the current interventions.

The employment equity targets for race representation are consistently achieved over a period. It had been previously reported that the appointment of persons with disabilities was a challenge, however, the organisation has succeeded in surpassing the goal of appointing females with disabilities. The monitoring mechanism has employed a proactive approach through establishing a subcommittee to the EEC, that focuses on improving representation and eradicating barriers to transformation. The year under review is the last year of the term of the Employment Equity Plan, and the goals were achieved as follows:

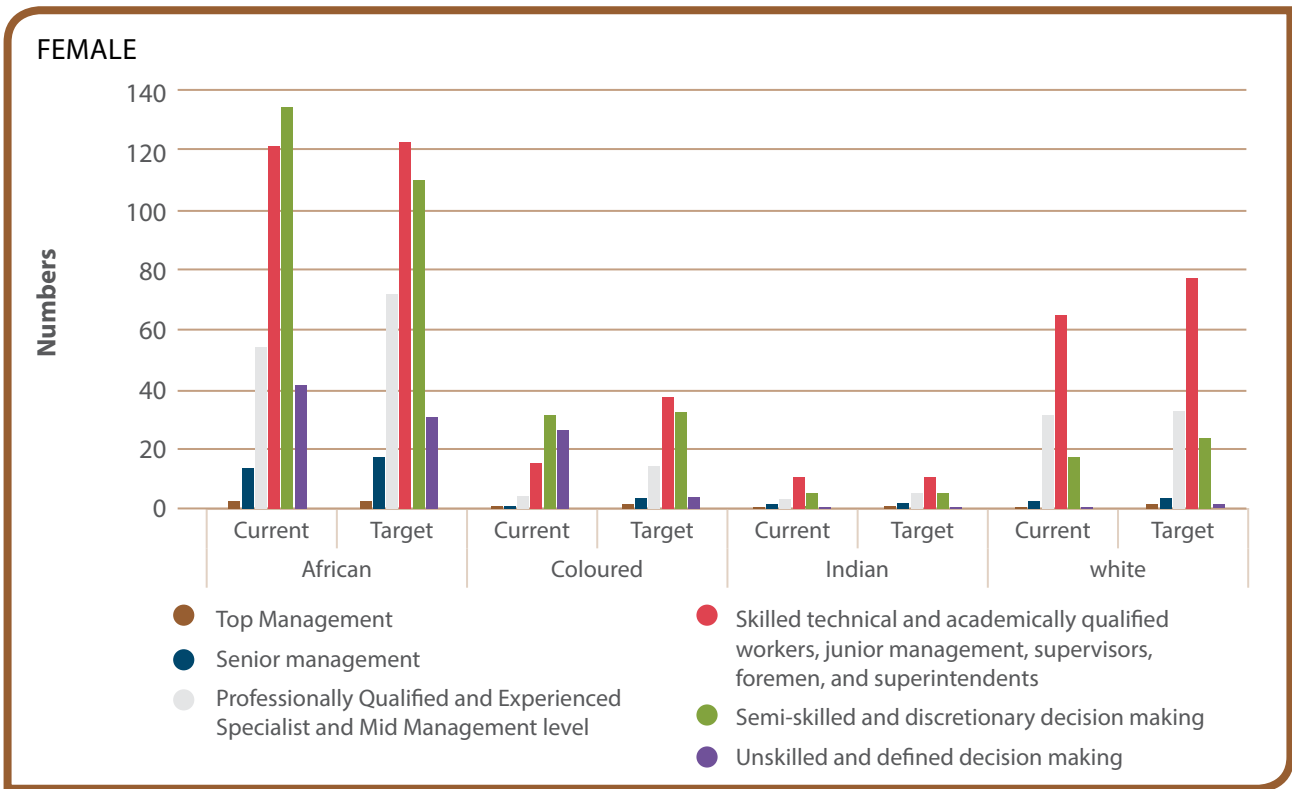
- The goal was set to increase black employees from 66% to 68% and 77,32% performance was achieved; and
- The goal for females was set to increase from 34% to 36% and 36% performance was achieved.

The graph below highlights progress for the year under review.

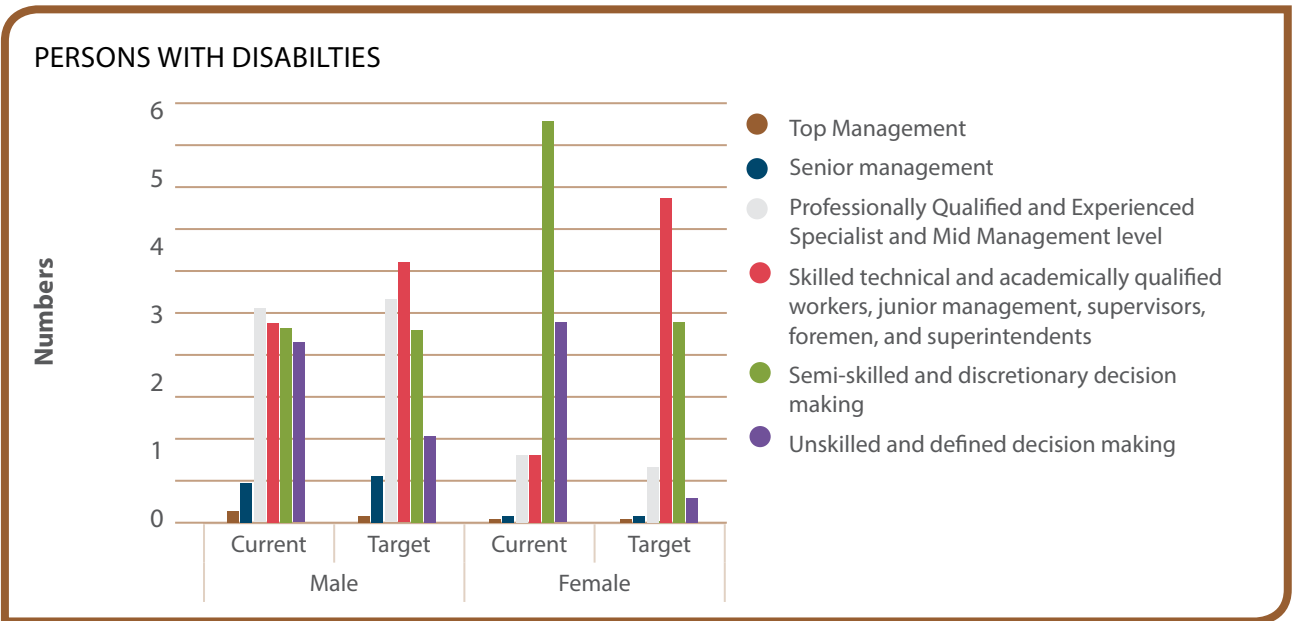


The chart indicates that the male category, with an increase in each designated group, and non-designated group, which was over-represented, indicates a rapid decline from what was planned and that served as an opportunity for under-represented groups. The skilled

technical and academically qualified workers, junior management, supervisors, foremen and superintendents level has a staggering non-alignment from the plan as a result of the revised occupational levels to reflect the organisational remuneration framework.



The graph indicates that the female category has overall increases in the targeted groups.



The targets for people with disabilities were surpassed, especially the female group. However, there were terminations of service in the male category resulting from retirements during the year under review, and consequently, the goals were not achieved.

EMPLOYEE SATISFACTION SURVEY

Annual in-house employee satisfaction surveys were conducted from 2012, except for 2014. In 2014, the Armscor Board of Directors commissioned an employee satisfaction survey to be conducted by an external

provider. The outcome of the survey showed that the average satisfaction amongst employees improved from 61,87% in 2010 to 68,71% in 2016. The following action plans have been implemented since 2010 to address the recommendations made by the survey reports:

- Management and Leadership Development Programmes; and
- A review of the Succession Planning and the Performance Management Practices.

The employee satisfaction survey for the 2016/17 financial year was conducted in February 2017. The outcome of the survey showed that the average satisfaction amongst employees is at 67,6%.

CAPABILITY RETENTION AND SUCCESSION PLANNING

Capability retention and succession planning is one of the key strategic initiatives of Armscor, and provides a systematic approach to address the challenge of an aging workforce, by ensuring that the critical knowledge and skills of Armscor knowledge holders/incumbents of key positions are transferred to the workforce of the future.

As part of the capability retention and succession planning, the following number of key positions (positions having a major impact on business sustainability) and successors (employees with potential that meets or succeeds performance targets) were identified. The number of key positions identified is 77, while the number of successors is 82.

Executives and senior management were made accountable for the success of knowledge transfer and succession planning. To this end, knowledge transfer and succession planning initiatives are added to the balanced scorecards of all parties concerned, and as such, influence their performance rating and remuneration.

Furthermore, knowledge retention interviews were conducted with all incumbents of key positions in order to capture critical information. This is stored on the Armscor knowledge portal, to be used as reference material for the training and development of successors/mentees.

To support the process, knowledge holders attended a UP-accredited coaching and mentorship course to equip them with the necessary coaching skills, as well as to support them with the establishments of a coach-mentee relationship. Mentees are also being trained in order for them to understand what will be required from them during this development process.

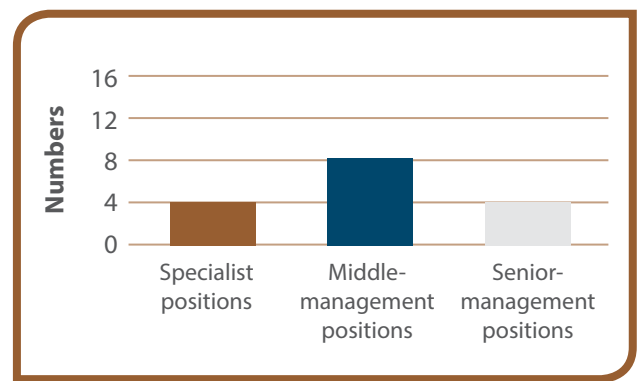
A critical component of the knowledge transfer and succession planning process is the contracting of multi-year development plans between the knowledge holder and the mentee. To support the identification of development gaps, psychometric assessments were conducted, and subsequently, the results are being used to develop a psychometric assessment dashboard, highlighting the development gaps between the key position requirements and the current level of capability of the successor.

The successor/mentee development programmes also include specialised training, and as such, partnerships were established with foreign countries and universities abroad to provide training on technologies that are not available in South Africa, but are essential for business sustainability.

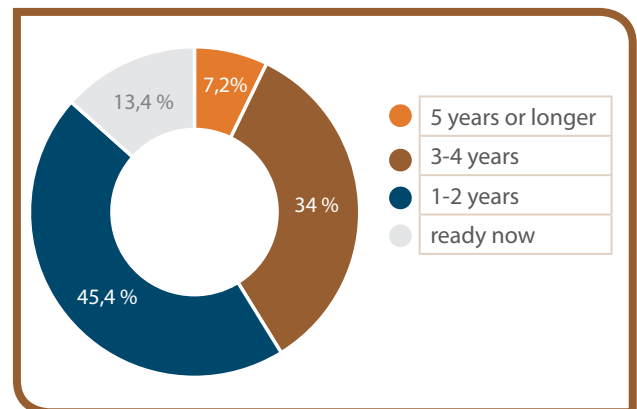
As part of the monitoring of the success of knowledge transfer and succession planning interventions, the following results are reported.

PROMOTION OF SUCCESSORS

Thirty three promotions were effected during 2016/17, of which 16 were successors.



READINESS OF SUCCESSOR 2016/17



SKILLS DEVELOPMENT

The Learning and Talent Development function focus is to consistently develop and sustain the relevant and required critical skills of employees, to ensure the achievement of the organisation's strategic business objectives and promote the culture of learning. Various development initiatives that seek to develop management and leadership competencies, and address critical and technical scarce skills shortages for employees at various respective occupational levels, were identified for the period of reporting. The initiatives include the implementation of bursary schemes, the Talent

Development Programme for graduates, the artisan and apprenticeship programmes, the Adult Education and Training Programme and employee satisfaction surveys.

INTERNATIONAL TRAINING PROGRAMMES

NAVAL POSTGRADUATE SCHOOL (NPS) PROGRAMME

Five employees continued with studies enrolled since December 2014 at the Naval Postgraduate School in Monterey, California.

Two employees have completed their studies; one employee completed his studies in June and another in December 2016. From the three remaining employees, two employees will complete their studies in June 2017, while one employee will continue until the end of 2017.

CRANFIELD UNIVERSITY

One employee is currently registered at Cranfield to complete the Aircraft Certification programme. She completed two blocks in 2016, and the remainder of the programme will be completed in 2017.

ADULT EDUCATION AND TRAINING PROGRAMMES (AET)

Seventy-six employees were registered on various levels of the AET programme during the period of reporting. From 76, 60 are registered for matric, and 16 for the AET levels 1 - 4.

As of the first quarter of 2017, the registered number of learners declined from 76 to 74. Seventeen learners are registered for matric, and 57 are registered for AET levels 1 - 4. Amongst the 74 registered learners are three Military Veterans beneficiaries.

AET LEVEL 1 – 4 ASSESSMENTS

The summative assessments were carried out by the Independent Examination Board for the AET learners during the reporting period. The overall AET level 1 - 4 pass rate is 91%.

TALENT DEVELOPMENT PROGRAMME (TDP)

Thirty-five graduates were appointed to the Talent Development programme during the year under review. The programme comprises 14 African males, 19 African females, one Indian male and one White female pursuing opportunities in the disciplines of Science, Engineering and Information Communication Technology.

BURSARIES

One-hundred-and-sixteen bursaries were awarded to undergraduates at various local universities during the period under review. The bursaries are funded through the Armscor bursary scheme, the Armscor Defence Industry Bursary Scheme (ADIBS) and the Department of Defence (DOD) Ledger Fund.

Twenty-two out of 116 current bursary holders may complete their degrees in November 2017. The status changed for three bursary holders who may complete their degrees during 2017.

Nineteen graduates are being considered for possible placement in the Talent Development Programme. Four graduates will register for postgraduate studies at Rhodes University, and will be supported by the Armscor Bursary Scheme.

Five graduates from the above list have been placed in the Talent Development Programme, and five are pursuing postgraduate qualifications.

DOCKYARD

SA NAVY TRAINING

A total of 23 SA Navy students were enrolled at the training centre for P1 Mechanical Engineering and P2 Electrical Engineering respectively. Two of these learners enrolled for trade test preparation.

MERSETA

MERSETA WORKPLACE APPROVAL

The Dockyard was awarded workplace approval for the Joinery Trade, for the purposes of recognising joinery training for apprentices.

MERSETA DISCRETIONARY GRANTS

The Manufacturing Engineering and Related Services Seta (MERSETA) awarded Armscor Dockyard a R1 672 200 discretionary grant for 12 learners for the apprenticeship programme. The first tranche payment of R836 100 was paid in June 2016.

» INFORMATION TECHNOLOGY (IT)

Armscor contributes to the process of helping the transition of the country's military capabilities from an industrial age to the information age. Consequently, the new Information Communication Technology (ICT) strategy has been geared accordingly, and was approved by the Board in 2016. It places emphasis on the following three areas: information security, governance and the renewal of enterprise applications. The focus in the last financial year has been on ensuring that the work executed within Armscor be effective enough to allow such services to be extended to the defence community. The selected initiatives reported on below were carried out in support of this strategy. They cover information security, governance, applications renewal and related initiatives

INFORMATION SECURITY

The overall objective was to improve information security. While the initial focus was on implementing one tool to address an aspect of data leakage, the focus quickly moved to more than that, due to the challenges that were anticipated, some of which manifested. This has included training people to deal with the wide spectrum of cyber security. The following activities were carried out:

- Deployment of the TACACS+ (Terminal Access Controller Access-Control System Plus) server for monitoring the administrator's authentication and activities.
- Implementation of the patch management system to ensure that we effectively manage patches and updates for all the applications and operating system versions.
- Implementation of a new Armscor website with enhanced security features.
- Internal and external security vulnerability assessments were conducted to identify vulnerabilities in the systems and security controls

to address the identified vulnerabilities were implemented.

- An Armscor cyber security workgroup and inter-organisational cyber security workgroup were established. The purpose is to coordinate activities with the different stakeholders within the defence/security environment and to share knowledge, ideas, experiences and capabilities.

IT GOVERNANCE

As part of the process to improve ICT Governance and ICT Services Management, the department implemented the Armscor corporate information and communication technology governance charter.

BUSINESS APPLICATIONS RENEWAL

As part of the organisation's Enterprise Architecture (EA), the process of developing an ERP Capacity Plan commenced during the year under review in order to determine the future ICT resource requirements for the ERP.

The base solution for the whole ERP platform has been established on a development environment and the following modules are in different stages of development:

- The Budget & Forecasting module is in pre-testing phase;
- HRM module is in the design and build phase;
- Finance module is in the analysis stage and the revised implementation date is March 2018.

A Video Conferencing system has been implemented and is supported in-house as part of the cost saving initiative in line with the Turnaround Strategy.

KNOWLEDGE MANAGEMENT AND OTHER ACHIEVEMENTS

The Knowledge Management (KM) strategy was formally launched in 2016. The addition of the knowledge management clause in the quality standard 9001:2015 has necessitated that Armscor consider linking the

KM programme with the performance management system to ensure that the organisation determines the knowledge necessary for the operation of its processes and to achieve conformity of products and services as well as to ensure that knowledge shall be maintained and accessed to an extent by all employees.

» MARKETING & BUSINESS DEVELOPMENT

The Marketing & Business Development function is primarily responsible for marketing the corporation and its products and services through effective marketing communication channels, as well as supporting the marketing of the South African Defence Industry capabilities. Armscor endeavours to build, maintain and strengthen relationships with all its stakeholders through different marketing communication and engagement platforms.

It is responsible for the promotion of Armscor's Turnaround Strategy - On Time, In Time, Towards a Sustainable Future - and position it as the premier defence technology and acquisition service provider through internal and external stakeholders. It has been instrumental as a lead partner during the AAD2016, in cooperation with other partners, in delivering a world class event.

ARMSCOR STAKEHOLDERS

The table below is an illustration of how Armscor engages with its stakeholders

STAKEHOLDER	STAKEHOLDER EXPECTATIONS	HOW ARMSCOR ENGAGES
Regulators: <ul style="list-style-type: none"> Shareholder Government Departments / SOCs Parliamentary Committees NCACC 	<ul style="list-style-type: none"> Delivery on mandate Governance Leadership & strategic direction 	<ul style="list-style-type: none"> Shareholder's Compact Annual Report Corporate Plan Corporate Strategy AGM Portfolio Committee meetings Council on Defence & Plenary on Defence Staff Council NDIC meetings
Clients: <ul style="list-style-type: none"> SANDF SAPS DCS Governments / Departments / Institutions 	<ul style="list-style-type: none"> Timeous delivery of products & services Value for money 	<ul style="list-style-type: none"> SLA MoA Direct customer engagement Customer feedback & reports / presentations Stakeholder satisfaction survey Participation in industry forums & committees Social Events
Employees: <ul style="list-style-type: none"> Internal Labour Unions 	<ul style="list-style-type: none"> Fair employment standards & remuneration Career prospects Communication 	<ul style="list-style-type: none"> Employment Equity Committee Turnaround sustainability team Reward and recognition Training & skills development initiatives Employee engagement sessions Employee satisfaction survey Newsletters Intranet / Internet

STAKEHOLDER	STAKEHOLDER EXPECTATIONS	HOW ARMSCOR ENGAGES
Defence Industry: <ul style="list-style-type: none"> • South African Defence Industry • International Defence Industry 	<ul style="list-style-type: none"> • Transparency & fairness • Communication 	<ul style="list-style-type: none"> • Regular board engagement with industry association board • Industry forums & committees • Export marketing support initiatives • Stakeholder satisfaction survey • International dignitaries engagements • Social Events
Strategic Business Partners: <ul style="list-style-type: none"> • SOCs • Research & Academic Institutions • International Government Organisation 	<ul style="list-style-type: none"> • Governance • Transparency 	<ul style="list-style-type: none"> • MoU • Bilateral / collaborative engagements
General Public: <ul style="list-style-type: none"> • Communities 	<ul style="list-style-type: none"> • Employment opportunities • Socially and environmentally responsible actions 	<ul style="list-style-type: none"> • Employment • Awareness campaigns • CSI initiatives
Media: <ul style="list-style-type: none"> • Local and international media 	<ul style="list-style-type: none"> • Transparency • Honesty • Accessibility 	<ul style="list-style-type: none"> • Media releases • Media briefing • Media responses

STAKEHOLDER RELATIONS

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

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

MAAC ENGAGEMENT SESSION

This year's annual workshop with the MAAC community focused on the theme ***"Sustaining Defence cooperation through strengthened diplomatic relations"*** which addressed solutions and developed action plans with deliverables. The event was attended by 36 Military Attaches from 30 countries around the world. The session took a different format by allowing participants to fully engage, with not only Armcor, but with each other as well. Discussions and engagements were guided by the theme of the session, and this was considered an improvement by the MAAC group compared to the previous year.



MAAC Engagement Session 2017

ENGINEERING DAY

Armcor hosted an Engineering Day on 11 August 2016 at the CSIR. The event was aimed at marketing the professional registration with ECSA; the need for professional engineers registered at the Engineering Council of SA (ECSA) to earn Continued Professional Development (CPD) credits; technical employees' training needs; the need to keep technical employees informed on technical issues. The session is held annually to create networking opportunities with key stakeholders.

Thought provoking topics were discussed, such as Surveillance Technologies used in Anti-Poaching Initiatives in the Kruger National Park. This gave the audience insight of how technology can play a big role in nature conservation. A presentation on the protection against Cyber Crime and Cyber Warfare made attendees realise how vulnerable they are due to social network connectivity in everyday activities. Aircraft Readiness to Crises Response and challenges experiences, as well as a presentation on Nuclear Power in South Africa, were topics which raised a plethora of questions.

SMME SUPPLIER OPEN DAY

In support of imperatives that advance the strategic initiatives of a developmental state as defined in the National Development Plan (NDP) and the Industrial Policy Action Plan (IPAP), Armcor hosted the Armcor Supplier Open Day which was held on 19 May 2016; the first of its kind for Armcor.

Under the theme ***"Empowering SMMEs for global competitiveness"***, the Supplier Day mirrored Armcor's acknowledgement of the significant role played by SMMEs in growing the South African economy, and the event aimed to share the ***"On-Time In-Time: Towards A Sustainable Future"*** strategy of Armcor. It also created a networking platform for SMMEs to engage with large companies, thus promoting Enterprise Supplier Development and/or subcontracting and partnering opportunities. The event, which attracted over 500 delegates from across the country, elicited the required engagement on future plans to transform the industry, through the development of the Defence Sector Charter. The highlight of the day was the signing of a Memorandum of Understanding (MoU) with the Masisizane Fund, an Old Mutual Group initiative established to provide financial and non-financial support to SMMEs.



Mr Kevin Wakeford and Mr Simpiwe Somdyala, CEO of Masisizane Fund



Delegates attending the Armscor Supplier Open Day

DEFENCE INDUSTRY SUPPORT

Armscor provides an integrated defence industry support to the South African Defence Industry (SADI). The support includes facilitating SADI's participation at local and international exhibitions, marketing the corporation's products and services in the defence and aerospace environment, as well as the management of requests for the utilisation of the South African National Defence Force (SANDF) equipment, personnel and facilities for marketing exposure.

DEFENCE EXHIBITIONS AND EVENTS

It is deemed important that SADI increase their exports in order to sustain its survival in the competitive international defence environment. An international exhibition is acknowledged worldwide as one of the best

channels to assist in promoting products and services, and is used as a marketing channel by Armscor to market SADI with their marketing endeavors to both local and international exhibitions. Although results might take time to be realised, exhibitions are also ranked as the most efficient way of achieving marketing objectives.

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

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

- **DSA 2016 held from 18–21 April 2016 in Kuala Lumpur.** 10 SADI companies attended. Highlights were the Youth programme and the Battlefield Healthcare which can be looked at for the next AAD.
- **EUROSATORY 2016 held from 13-17 June 2016 in Paris, France** where 5 SADI companies attended while a total of 1572 global defence and security suppliers from 56 countries have participated and 213 official delegations from 64 countries as well as 57 018 visitors from 151 countries have visited the exhibition.
- **INDEFENCE 2016 held from 2–5 November 2016 in Jakarta, Indonesia** – Highlights were 6 SADI companies attended; the SA Delegation meeting with the Ministry of Defence of Indonesia, which has already opened opportunities for SADI post the event. There was a 26% increase in exhibitor numbers. Participation numbers were higher, with a total of 847 exhibitors from 44 countries that participated, 22 national Pavilions, as compared to AAD with 532 exhibitors, 34 countries attended and 13 National pavilions.
- **IDEX/NAVDEX 2017 held from 19–23 February 2017 in Abu Dhabi, United Arab Emirates.** This exhibition complements the critical role played by the UAE Armed Forces, in collaboration with all government and national entities, in supporting different economic sectors. IDEX 2017 was the only national pavilion approved by the Department of Trade and Industry. A total of twenty-two SADI companies exhibited; showcasing a variety of products and services.
- During the event, the South African Defence Industry Association signed a Memorandum of Understanding (MoU) with Tawuzan National Defence Council (TNDC). The purpose of the MoU is to establish a relationship between the defence industries of the UAE and the Republic of South Africa. The intent is to cooperate in the identification of different business opportunities that will support and develop the defence industry, and also assess the viability and feasibility of such cooperation opportunities.



South African delegation from the Department of Defence and Armscor at the Armscor stand



Delegates from SA and Tawuzan National Defence Council after the MoU signing ceremony

- **Shield Africa 2017 held from 24–27 January 2017 in Abidjan, Côte D’Ivoire.** Highlights were 65% increase in the number of exhibitors, and SA’s first participation in the event. Armscor presented a paper on “Unlocking Africa’s Defence Potential”.
- **Aid & International Development Forum Africa Summit.** This was South Africa’s first participation at the summit where Armscor was a panel speaker and an exhibitor, and also presented a paper on “*Ensuring Access to Safe Drinking Water and Sanitation*”, where the various services offered by Armscor were showcased. Armscor’s presence at the summit generated interest in Armscor’s services and in particular, the Water Provisioning System which is relevant in the current drought in the region and in humanitarian expeditions.
- **Securex West Africa 2017 held from 21–23 March 2017 in Lagos, Nigeria.** Highlights were engagement which had the purpose of strengthening of relationships between the two countries.
- **Coastal and Maritime Surveillance Africa 2017 held from 27–29 March 2017 in Accra, Ghana.** Armscor was a strategic sponsor and an exhibitor at this event where the various services offered by Armscor were showcased. Armscor’s presence at the conference generated interest in Armscor’s services.

AAD 2016

Armscor as a lead partner, in conjunction with the Department of Defence, Aerospace, Maritime & Defence Industries Association (AMD) and the Commercial Aviation Association of Southern Africa (CAASA) organised the 9th edition of the Africa Aerospace and Defence (AAD) which took place from 14 to 18 September 2016 at Air Force Base Waterkloof.

Held biennially, AAD is the premier aerospace and defence exhibition on the African continent. With Africa’s economy growing rapidly and being amongst the fastest in the world, AAD 2016 has presented itself as a platform to bring together some of the world’s major industry players to showcase the latest technological innovations in land, sea and air capabilities.



From left: General Solly Shoke, Chief of SANDF; Dr Sam Gulube, Secretary of Defence; Nosiviwe Mapisa-Nqakula, Minister of Defence and Military Veterans; and Mr David Makhura, Premier of Gauteng

Under the theme “**Unlock Africa’s defence and aerospace potential**” the AAD 2016 hosted for the first time ever the African Pavilion, with the aim of showcasing the technology and products manufactured on the rest of the continent. Armscor also had the opportunity to

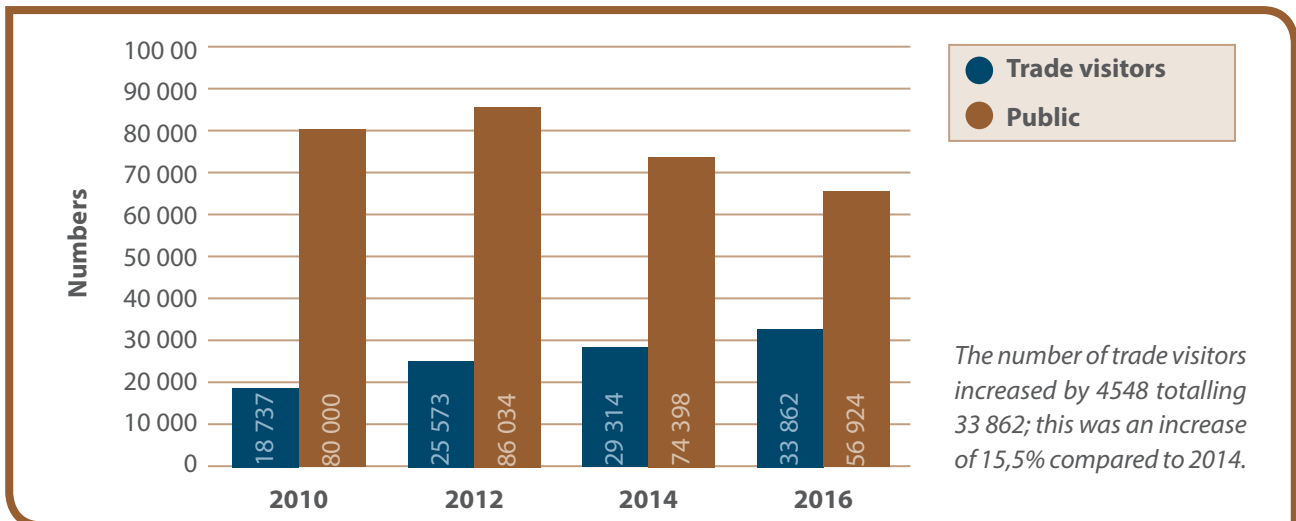
showcase some of its innovative capabilities such as the Water Provisioning System and the Africa Truck.

The show has continued to grow and attract more exhibitors, trade visitors and more official delegations than before.



Armscor CEO meeting Nigerian delegation

AAD 2016





The Youth Development Programme (YDP) is an integral part of the AAD and it aims to give high school learners more insight into career opportunities in the aviation

and defence industries. The YDP once again proved to be a success with Armscor having almost 10 000 learners taking part in the programme.



Learners participating in the YDP at AAD 2016

DEFENCE EQUIPMENT PERSONNEL SUPPORT (DEPS)

Armscor provides Marketing and Materiel Aid support to the SADI by facilitating the use of SANDF equipment, personnel and facilities. DEPS provides comprehensive guidance on the utilisation of DOD personnel, equipment, materiel and facilities by the SADI, in support of their strategic marketing initiatives that is consistent with government and defence policy. DEPS is the

nodal point for registering and processing marketing support requests. This involves proper administration, evaluation, contracting and handling of funds received from the requester (SADI), and the payment of funds to the DOD. Although there was a decline from the previous year, Armscor managed to transfer an amount of R3.3m generated from the SADI requests for the reporting period.

DEFENCE FOREIGN LIAISON

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

Foreign Liaison hosted several delegations pre and post AAD2016, to ensure that strategic goals are realised through these stakeholders. Partnerships and engagements were held, amongst others, with BRICS partners - Russia, China, India and Brazil. Engagements were also held with African counterparts - Egypt, Zimbabwe, Sudan. Armscor also participated in Defcoms, and Industry Seminars with Russia, Nigeria and Vietnam. Other international engagements included the Polish Armament Group and the Swiss Army.

CORPORATE SOCIAL INVESTMENT (CSI)

Armscor has, for many years, been involved in socially responsible initiatives, with the main emphasis on education, particularly supporting initiatives in the areas of science, technology, engineering and mathematics (STEM) subjects at schools; bursaries and internships.

Armscor's deliberate investment in education focuses not only on improving results in STEM subjects, but also

endeavours to stimulate and encourage the growth of engineers and scientists. Despite limited financial resources, the investment in education has yielded positive results, with some resources invested to promote socio-economic development.

CSI initiatives that Armscor can undertake have been grouped into three categories or Programmes, i.e. the human capital development programme, socio-economic development programme and social relief programme.

The following CSI activities were undertaken:

HUMAN CAPITAL DEVELOPMENT PROGRAMME

This programme intends to assist learners, specifically from previously disadvantaged communities, to improve their performance and results in the STEM subjects.

Armscor's investment in education endeavors to attract learners to STEM subjects and careers in the Engineering and Science sector, through teacher and learner programmes that improves the teaching capability of these STEM subjects in identified schools. Support, in the form of STEM equipment and tools, form part of their programme.

CELL C TAKE A GIRL CHILD TO WORK CAMPAIGN

Armscor hosted learners from Daspoort Secondary School on 25 May 2016, in support of the Cell C take a girl child to work campaign. The 2016 theme "**Dream, Believe, Achieve**" aimed to inspire learners with knowledge and power to lead and succeed in life. Learners were taken through various divisions in Armscor to expose them to different career opportunities in the organisation.



Learners From Daspoort Secondary School

ARMSCOR & THE UNIVERSITY OF FORT HARE PARTNERSHIP

In July 2016, Armscor partnered with the University of Fort Hare (UFH) in an effort to create capability and capacity for, and support the development and maintenance of the Department of Defence capabilities. Armscor has a requirement for suitably qualified students in the technical, IT, ergonomics and human movement science fields, especially students from previously disadvantaged areas. The UFH is assisting Armscor with the development of an Ergonomics qualification, and the anticipated timeline for implementation is 2018/19. To further stimulate interest in the above-mentioned areas, UFH conducted Saturday classes for science and mathematics

subjects, as part of the Learner Intervention Programme (LIP). 280 learners from over 30 schools in the districts of Alice and Bisho benefited from this intervention. During the 2016/17 financial year, a capital investment of R600 000 for the development of an Ergonomics qualification was ploughed in, as well as R300 000 to undertake Saturday classes preparing Grade 12 learners for examinations. Considering that 2016/17 was the first year of the project, there was a slight improvement in the pass rate of all schools selected, as well as the number of learners who passed with a Bachelor status. Armscor is confident that this initiative will ensure a rise in the number of matriculants who pass their STEM subjects.



Students at UFH – Alice campus attending Saturday classes sponsored by Armscor, July 2016.



Students at UFH – Bisho campus attending Saturday classes sponsored by Armscor, July 2016.

ADELAIDE TAMBO SCHOOL

The school was established in the 1980s to cater for children with special needs in education. It accommodates learners who are physically challenged and those with learning and intellectual disabilities, from previously disadvantaged communities. In addition to academic learning from Grade 1-12, Adelaide Tambo School also has a skills development and rehabilitation department. The latter department provides physiotherapy, occupational therapy, speech therapy and nursing, as well as social work services.

During the 2016/17 financial year, Armscor donated digital and science learning resources to the school. The learning equipment donated included a smart board, laptop, projector, digital multimeter, laboratory coats, as well as human models. Such resources are aimed at stimulating and encouraging an interactive learning experience for learners. One of the learners who matriculated in 2016 was awarded a bursary to study engineering at Cape Peninsula University.



Learners from Adelaide Tambo School



Handover ceremony at Adelaide Tambo School

CURTIS NKONDO SCHOOL OF SPECIALISATION

This was one of the schools that Armscor hosted during AAD2016. The school was officially opened in May 2016, and offers technical skills to high school learners with a keen interest in engineering, science, technology,

commerce and entrepreneurship, amongst other areas. Armscor was invited to exhibit and create awareness of careers in the defence and aerospace sector during the school's Top Achiever Award ceremony held in December. The event was also attended by the leadership of the Gauteng Provincial Education Department.



Top Achiever Awards ceremony at Curtis Nkondo School

SANDF EDUCATION TRUST

The SANDF Education Trust was established in 2013 to support the dependants of soldiers who were killed or severely injured in the execution of their duties and securing primary, secondary and tertiary education for the dependants. As a socially responsible organisation and in an effort to strengthen relations with the Department of Defence and SANDF, Armscor organised a

Gala Dinner fund-raising event to contribute towards the SANDF Trust, as well as fulfil Armscor’s Corporate Social Investment objectives.

A total amount of R4.5m was raised at the event through sales of tables (R602 000), an auction (R94 000) and pledges (R3 800). This event was attended by approximately 250 people and held in October 2016.



Armscor Chairman of the Board Vice Admiral (Ret) J Mudimu at the SANDF Education Trust Gala Dinner



Minister of Defence and Military Veterans; Nosiviwe Mapisa-Nqakula at the SANDF Education Trust Gala Dinner

SOCIAL RELIEF PROGRAMME

The programme provides social relief in cases of emergencies/disaster relief and charitable good causes.

THE RAYMOND AND DIDEKA MHLABA FOUNDATION

The Foundation was established to support economic development initiatives aimed at creating jobs and to promote social, racial and cultural cohesion. The

Foundation invited Armscor to attend the inauguration of the foundation and support its year-end event aimed at honouring military veterans and assisting those who are destitute. The event, which took place in December 2016, was attended by over 200 military veterans, including the former Mayor of Port Elizabeth Metro, Mr Nceba Faku, as well as the former Eastern Cape Transport MEC, Mr Thobile Mhlahlo.

NELSON MANDELA DAY

Nelson Mandela International Day was launched in 2009 to commemorate the lifetime of service Nelson Mandela gave to South Africa and the world. Normally, corporates and individuals celebrate the life and legacy of Nelson Mandela by taking action against poverty and making a difference in other people's lives.

Armcor joins other corporates in this annual event and encourages all employees, including those based at remote facilities to participate. In the last financial year, employees visited and provided support to identified organisations, including a children's home for the disabled, a needy kindergarten, schools and orphanages, as well as destitute families identified by the Department of Social Development in the Prieska area.



Dockyard employees on Mandela Day



Armcor employees at Sizanani Home

MILITARY VETERANS

As part of Armscor's continued efforts to recognise and include Military Veterans in the procurement mainstream and other socio-economic support programmes, Armscor joined forces with the Gauteng Department of Community Safety and the Department of Military Veterans in a volunteering Community Patroller initiative

in fighting crime within the province. Community Patrollers are mainly deployed at Gauteng's hotspot areas. The Department of Military Veterans identified fifty (50) Military Veterans to participate in the initiative; Armscor contributed 50 two-way radios for use by the Military Veterans for communication purposes with the Community Safety Department and South African Police Services (SAPS). The initiative was launched at the beginning of the festive season (December 2016) and is still continuing.



The launch of the Community Patroller initiative

With the expected implementation of the Defence Sector Charter where Military Veterans are prioritised as one of the beneficiaries of the Charter, Armscor held an educational and information workshop for the Military Veterans. The objective was to appraise them of Armscor procurement processes, core business areas and relevant support business units, for example, compliance. The workshop was well received and attended by more than

100 Military Veterans representing about seventy (70) existing and potential military veterans businesses.

The event was attended by the Deputy Minister of Defence and Military Veterans, the Deputy Minister of Public Services and Administration, the Secretary for Defence, as well as the Chairperson of the Portfolio Committee on Economic Development.



Delegates attending the Military Veterans Workshop



MV WORKSHOP. From left: (Mr Max Ozinsky (Acting DG, DOD), Mr Kebby Maphatsoe, Deputy Minister (DOD&MV), Mr Pumlani Kubukeli (Armscor), Ms Ayanda Dlodlo (Deputy Minister, DPSA) and Mr Kevin Wakeford (CEO, Armscor)

To encourage maximum participation of women Military Veterans in socio-economic development programmes, both within and outside Armscor, the Corporation is supporting a women Military Veterans' Cooperative through the Enterprise Supplier Development (ESD) programme, which will benefit children of women military veterans.

The Cooperative will, effective July 2017, be incubated by Clothing Textile Uniform (CTU) manufacturing Primary Cooperative, which is 100% black women-owned, and manufactures uniform, linen, corporate and protective clothing for hospitals and the private sector.

The company employs more than 100 employees, mainly women and youth. CTU is one of the companies that was supported and funded by the Masisizane Fund. The company was established in 2008, and it has experience in incubating other ESD programmes.

The women Military Veterans' Cooperative will be equipped with operations, management, administration and financial management skills. Armscor has committed an amount of R294 000 for the programme, which will cover the stipend for the seven identified women military veterans. The Department of Military Veterans conducted a due diligence, and has verified the names of the identified beneficiaries.



Armscor management visited CTU at their Doornfontein premises

FREIGHT FORWARDING AND TRAVEL SERVICES

comprehensive logistics and travel management service to Armscor, SANDF, SADI and Foreign Defence Forces that specialises, amongst other things, in military sensitive commodities and hazardous cargo. This is in support of the acquisition supply chain requirements during the import and export process, rendering an air, sea, rail and road freight distribution network globally to all stakeholders.

The business unit is a registered and accredited customs clearing agent with the South African Revenue Services (SARS). ABL is proud to have maintained its compliance status of being a registered transporter of hazardous cargo, weapons and ammunition in terms of the Explosive Act and Firearms Control Act. In terms of the South African Arms Control Regime, ABL is registered with the National Conventional Arms Control Committee (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), a European Union Regulated Agent (RA3), the South African Association of Freight Forwarders (SAAFF) and Road Freight Association (RFA).

During the year under review, freight services volumes decreased by 26% from the previous financial year to 1574 shipments, while the travel services volumes increased by 17%. The financial contribution made by

ABL decreased by 12% compared to the previous year from R14,1m to R12,4m. This is directly linked to the decrease in shipments during the reporting year. Efforts to market Armscor's capabilities, including freight logistic to identified targeted markets, are expected to yield positive results.

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

In an endeavour to continue to extend our services to other government departments and institutions, a vendor agreement was concluded with Crest Chemicals to clear Mondi LTD's (international paper and packaging company) Sodium Chlorate import shipments.

In the year under review, ABL has been instrumental in assisting international clients with freights services to test defence equipment at the Alkantpan ballistic test range facility in the Northern Cape. During AAD 2016, ABL rendered services to these African clients, Safat Aviation Group, Zimbabwe Defence Industries, and Aerorescue, who brought their shipment/system to exhibit in the largest and renowned premier exhibition and show on the African continent.

As a registered member of the International Air Transport Association (IATA) and the Association of South African Travel Agents (ASATA), ABL Travel maintained a contribution of approximately 20% to the ABL revenue for the financial year.





04 GROUP ANNUAL FINANCIAL STATEMENTS

REPORT OF THE AUDIT AND RISK COMMITTEE

INTRODUCTION

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. The Committee reports that it has adopted appropriate formal terms of reference as its charter, which was approved by the Board of Directors, and that it has discharged its responsibilities as contained therein, which included the following oversight responsibilities, amongst others:

- ensuring that the Armscor group has, and maintains effective, efficient and transparent systems of financial risk management, governance and internal control;

- ensuring the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the group;
- preparing accurate financial reporting and monitoring compliance with all applicable legal requirements and accounting standards; and
- ensuring corporate accountability and governance, the associated risk in terms of management, assurance and reporting.

MEETINGS

As part of the oversight responsibility, the Committee held four normal meetings and two special meeting as follows:

Audit Committee Member	Role	Date appointed	No of meetings attended
Dr M Khanyile	Chairperson	01 May 2014	4 out of 4
Mr NM Tyibilika	Member	01 May 2014	4 out of 4
Mr L Kuse	Independent Member	04 May 2015	3 out of 4

INTERNAL CONTROL ENVIRONMENT

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

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

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

- Risks are properly managed and reduced to acceptable levels;
- Assets are safeguarded;
- Financial and operational information is reliable;
- Operations are effective and efficient;
- Resources are acquired economically, used efficiently and adequately protected;

- Programmes, plans and objectives are achieved;
- Quality and continuous improvements are fostered in the organisation's control process; and
- Significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

ANNUAL FINANCIAL STATEMENTS

The Committee has evaluated the annual financial statements of the Armscor group for the year ended 31 March 2017, and considered that they comply, in all material respects, with the requirements of the Public Finance Management Act (Act No 1 of 1999), as amended, as well as South African Statements of Generally Accepted Accounting Practice.

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

their commitment to strengthening the internal control environment that led to the clean audit opinion.

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



DR M KHANYILE
AUDIT AND RISK COMMITTEE CHAIRPERSON

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated financial statements of the Armaments Corporation of South Africa SOC Ltd (Armcor) and its subsidiaries set out on pages 111 to 154, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Armaments Corporation of South Africa SOC Ltd as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Statements of South African Generally Accepted Accounting Practice (SA statements of GAAP), and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008).

BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated financial statements section of my report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

OTHER MATTER

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

Unaudited supplementary schedules

7. The supplementary information set out on pages 108 to 110 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

8. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated financial statements, in accordance with SA statements of GAAP 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 financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the consolidated financial statements, the accounting authority is responsible for assessing Armcor'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 intention is to liquidate the entity or cease operations, or there is no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

10. My objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and are considered material if, individually or

in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

11. A further description of my responsibilities for the audit of the consolidated financial statements is included in the Auditor's Report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the 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 also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Goal 1: Cat 1 defence materiel acquisition excluding strategic defence acquisition and procurement	95
Goal 2: system support – acquisition and procurement	96
Goal 3: schedule placement	96
Goal 4: management of defence industrial participation (DIP)	96

Objectives	Pages in the annual performance report
Goal 5: management and execution of defence technology, research, test and evaluation requirements of the Department of Defence	97
Goal 6: management and performance against the Dockyard mandate (SA Navy / Dockyard performance management in terms of service level agreement with the SA Navy)	97-98

15. I performed procedures to determine whether the reported performance information was properly presented, and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information, to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for all selected objectives.

OTHER MATTER

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 93 to 107 for information on the achievement of planned targets for the year.

REPORT ON 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. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

OTHER INFORMATION

21. Armaments Corporation of South Africa SOC Ltd and its subsidiaries' accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the director's report, the audit and risk committee's report, chief executive officer's report, the chairman's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated financial statements, the auditor's report thereon, and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

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

23. In connection with my audit, my responsibility is to read the other information, and in so doing, consider whether the other information is materially inconsistent with the consolidated financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information 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

24. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant internal control deficiencies.



Pretoria

31 July 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

FINANCIAL STATEMENTS

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

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

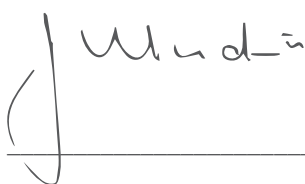
DIRECTORS APPROVAL OF THE ANNUAL REPORT

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

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

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

Against this background, the Directors of Armscor accept responsibility for the financial statements. The information on pages 85 to 155 was approved by the Board of the Directors on 25 August 2017.



Vice Admiral (ret) J Mudimu
CHAIRMAN OF THE BOARD OF DIRECTORS

CERTIFICATE

In terms of section 88 (2) (e) of the Companies Act 71 of 2008 (as amended), (the Act), it is hereby certified that for the year ended 31 March 2017, the Armaments Corporation of South Africa SOC Limited has lodged with the Commissioner, all required returns and notices in terms of the Act, and that all such returns and notices appear to be true, correct and up to date.



Adv. N.B. Senne
COMPANY SECRETARY

DIRECTOR'S REPORT

INTRODUCTION

This is the Directors Report for the period 2016 – 2017 and relates to the performance of the Corporation for the year under review

BACKGROUND

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

NATURE OF BUSINESS

Armscor's mandate is contained in the Armscor Act. This is briefly to meet the defence materiel requirements of the 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.

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

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

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

of Weapons of Mass Destruction Act 1993 (Act No. 87 of 1993), perform any function which the Corporation may perform for or on behalf of the Department in terms of this Act for or on behalf sovereign any of State.

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

SHARE CAPITAL

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

ORGANISATIONAL STRUCTURE

The organisational structure of the Corporation appears on page 04 of this report.

COMMUNICATION WITH THE EXECUTIVE AUTHORITY

The Executive Authority for Armscor is the Minister of Defence and Military Veterans, who represents the Shareholder. Communication with the Executive Authority is channelled primarily through the office of the Chairman. In addition, there are further engagements between the Minister and the 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. A Shareholders meeting also took place during the year under review.

DIRECTORATE

The Directors of the Corporation and their brief Curricular Vita appear on page 05 to 07 of this report.

CORPORATE GOVERNANCE

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

Africa 2009, and Protocol on Corporate Governance in the Public Sector 2007.

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

THE SHAREHOLDER

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

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

Board Meetings with the Minister of Defence and Military Veterans

Board Member	15/11/2016
Vice Adm (Ret) J Mudimu (Chairman)	Present
Amb T Skweyiya (Deputy Chairperson)	Absent with apology
Dr MB Khanyile	Present
Adv VL de la Hunt	Present
Mr NM Tyibilika	Present
Mr RM Vokwana	Present
Mr KPE Wakeford (CEO)	Present
Mr JG Grobler (CFO)	Present

THE BOARD OF DIRECTORS

The Board of Directors have been appointed in terms of Section 6(1) of the Armscor Act and should consist of nine (9) non-executive members and two executive members, namely the Chief Executive Officer and the Chief Financial Officer. During the year under review though, the Board consisted of six (6) non-executive members and two executive members due to unfilled vacancies in the Board.

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

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

- Managing and controlling the affairs of the Corporation as set out in section 6(1) of the Armscor Act;

- Performing the functions of the accounting authority for the Corporation as contemplated in section 6(2) of the Armscor Act and section 51(a) of the PFMA;
- Providing effective leadership and control in terms of approving the Corporations strategy and ensuring control over its operational implementation. The Board as the accounting authority takes responsibility for both its success and failure.
- Ensuring that the Corporation continues to operate as a viable and sustainable going concern by exercising effective control and leadership on material decisions having an impact on the Corporation;
- Providing oversight on human, operational and financial resources available within the Corporation to achieve its objectives;
- Playing a key role in setting, reviewing and monitoring compliance with the Corporation's values;
- Represent and serve the shareholder's interests by overseeing appraising the strategies. Policies and performance of the Corporation; and
- Ensuring that the shareholder is kept informed of the Corporations performance and any major developments.

BOARD MEETINGS

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

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

During the 2016/2017 financial year, the Corporation held eight (8) Board meetings, including four (4) Special Board meetings. Tables below shows the meetings of the Board.

Board of Directors and Attendance of Meetings

Board Member	30/05/16	24/06/16	19/08/16	27/10/16	22/11/16	09/12/16	27/01/17	10/03/17
Vice Adm (Ret) J Mudimu (Chairman)	Present	Present	Present	Present	Present	Absent with apology	Present	Present
Amb T Skweyiya (Deputy Chairman)	Present	Present	Absent with apology	Present	Present	Present	Absent with apology	Present
Dr MB Khanyile	Present	Present	Present	Present	Present	Present	Present	Present
Adv VL de la Hunt	Present	Present	Present	Present	Present	Present	Present	Present
Mr NM Tyibilika	Present	Present	Present	Present	Present	Present	Present	Present
Mr RM Vokwana	Present	Present	Absent with apology	Present	Present	Present	Present	Present
Mr KPE Wakeford (CEO)	Present	Present	Present	Present	Present	Present	Present	Present
Mr JG Grobler (CFO)	Present	Present	Present	Present	Present	Present	Present	Present

SPECIAL BOARD OF DIRECTORS MEETINGS

Special Board of Directors and Attendance of Meetings

Board Member	15/04/2016	26/05/2016	13/07/2016	04/08/2016
Vice Adm (Ret) J Mudimu (Chairman)	Present	Present	Present	Present
Amb T Skweyiya (Deputy Chairperson)	Present	Present	Present	Present
Dr MB Khanyile	Present	Present	Present	Present
Adv VL de la Hunt	Absent with apology	Present	Absent with apology	Absent with apology
Mr NM Tyibilika	Present	Present	Present	Present
Mr RM Vokwana	Present	Present	Present	Absent with apology
Mr KPE Wakeford (CEO)	Present	Present	Present	Present
Mr JG Grobler (CFO)	Present	Present	Present	Present

BOARD ENGAGEMENTS WITH 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 year under review to the Minister as a representative of the Shareholder. The Minister tables the reports in the National Assembly

in the presence of members of the Board. Before these Reports are tabled at the National Assembly, the Board presents the Reports to the PCDMV. The following table provides information about the Board engagements with the Portfolio Committee on Defence and Military Veterans.

Board engagements with Portfolio Committee on Defence and Military Veterans and Attendance of Meetings

Board Member	10/05/2016	12/10/2016
Vice Adm (Ret) J Mudimu (Chairman)	Present	Present
Amb T Skweyiya (Deputy Chairperson)	Present	Present
Dr MB Khanyile	Present	Present
Adv VL de la Hunt	Present	Present
Mr NM Tyibilika	Present	Absent with apology
Mr RM Vokwana	Present	Present
Mr KPE Wakeford (CEO)	Present	Present
Mr JG Grobler (CFO)	Present	Present

BOARD STRATEGIC REVIEW SESSIONS

The meetings of the Board of Directors are governed by the Board's Terms of Reference, which make provision for further meetings of the Board to take place, as and when the Board deems it appropriate, and are convened

Board Strategic/Review Sessions by the Chairman. The Board, during this period, held a Board strategic session to pave the way for 2017, the Board Strategic/Review Sessions table refers.

Board Strategic/Review Sessions

Board Member	26/01/2017
Vice Adm (Ret) J Mudimu (Chairman)	Present
Amb T Skweyiya (Deputy Chairperson)	Absent with apology
Dr MB Khanyile	Present
Adv VL de la Hunt	Present
Mr NM Tyibilika	Present
Mr RM Vokwana	Present
Mr KPE Wakeford (CEO)	Present
Mr JG Grobler (CFO)	Present

BOARD COMMITTEES

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

AUDIT AND RISK COMMITTEE

The Audit & 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 two independent non-executive directors, one independent member and two executive directors. Unless otherwise directed by the Committee, the following persons shall have a standing invitation to the meeting of the Committee:

- Chief Audit Executive;
- Chief Information Officer (CIO);
- 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; and
- Ensuring corporate accountability and managing the associated risk in terms of management, assurance and reporting.

Audit and Risk Committee and Attendance of Meetings

Members	26/05/2016	28/07/2016	23/11/2016	13/02/2017
Dr MB Khanyile (Chairman)	Present	Present	Present	Present
Mr NM Tyibilika	Present	Present	Present	Present
Mr L Kuse*	Present	Present	Present	Absent with apology
Mr KPE Wakeford	Present	Absent with apology	Present	Present
Mr JG Grobler	Present	Present	Present	Present

* independent member

TECHNOLOGY AND INDUSTRY SUPPORT COMMITTEE

The Technology and Industry Support Committee consists of three non-executive directors and two executive directors. 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 Department of Defence (DOD) in line with the Armscor Strategy and;
- 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.

Technology and Industry Support Committee and Attendance of Meetings

Members	14/04/2016	13/07/2016	07/11/2016	02/02/2017	23/03/2017
Mr NM Tyibilika (Chairperson)	Present	Present	Present	Present	Present
Amb T Skweyiya	Present	Present	Present	Present	Present
Adv VL de la Hunt	Present	Present	Present	Present	Present
Mr KPE Wakeford	Present	Present	Present	Present	Present
Mr JG Grobler	Present	Present	Present	Present	Present

Special Technology and Industry Support Committee and Attendance of Meetings

Members	04/08/2016
Mr NM Tyibilika (Chairperson)	Present
Amb T Skweyiya	Present
Adv VL de la Hunt	Absent with apology
Mr KPE Wakeford	Present
Mr JG Grobler	Present

ACQUISITION COMMITTEE

The Acquisition Committee consist of three non-executive directors and two executive directors. The acquisition of defence materiel requirements of the Department of Defence (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 Department of Defence (DOD) or other clients to the Board;
- Deciding on the strategic nature and implications of acquisition projects and whether such projects should be disposed of by the Committee or are of such a nature that they require consideration by the Board; and
- Considering and disposing of acquisition and procurement submissions within the approved limits.

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

Acquisition Committee and Attendance of Meetings

Members	04/04/2016	09/06/2016	13/10/2016
Mr RM Vokwana (Chairman)	Present	Present	Present
Dr MB Khanyile	Present	Present	Present
Mr NM Tyibilika	Present	Present	Present
Mr KPE Wakeford	Present	Present	Present
Mr JG Grobler	Present	Present	Present

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

The Human Resources, Social and Ethics Committee is attended by three non-executive members and the Chief Executive Officer. 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, policies and strategies;
- Advising the Board on all matters relating to conditions of service, remuneration, reward and retention strategies;
- Overseeing and providing direction to Management on behalf of the Board to ensure that the Corporation's conducts its human resource affairs fairly, effectively and efficiently;
- Monitoring the Corporation's activities relating to its social impact taking into consideration all relevant legislation, legal requirements and codes of best practice; and
- Ensuring that the Corporation's ethics management process is managed effectively and efficiently.

Human Resource, Social and Ethics Committee and Attendance of Meetings

Members	13/07/2016	02/02/2017	23/03/2017
Adv VL de la Hunt (Chairperson)	Present	Present	Present
Amb T Skweyiya	Present	Present	Present
Mr RM Vokwana	Present	Present	Present
Mr KPE Wakeford	Absent with apology	Present	Present
Mr JG Grobler	Present	Present	Present

DISQUALIFICATION OF DIRECTORS

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

BOARD REMUNERATION

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

MAJOR INITIATIVES DURING THE REPORTING PERIOD

DEVELOPMENT OF DEFENCE SECTOR CHARTER FOR THE DEFENCE INDUSTRY

In April 2016, the Charter Steering Committee was established to drive the development of the Charter process. The Public Proclamation was gazetted by the Minister of Trade and Industry to inform the public about the intention to develop the Defence Sector Charter (Charter). There were robust stakeholders' consultations to obtain input, followed by the adoption of the Charter by the Steering Committee and stakeholders in January 2017.

During the month of March 2017, the Minister of Defence and Military Veterans approved the Charter, which was then submitted to the Minister of Trade and Industry, in order to allow for it to follow the Department of Trade and Industry process of public comments and gazetting.

DOCKYARD TRANSFER

The transfer process of the Dockyard from Armscor to Denel is still in progress. The approvals by National Treasury and an agreement with Denel's strategic partner remain the key outstanding milestones. In this regard the deadline contained in the transfer agreements was extended from the current financial year to the following to allow for the necessary approvals.

This process will result in Denel assuming operational and management oversight of the Dockyard, with Armscor the contracting authority on behalf of the Department of Defence.

SQUARE KILOMETER ARRAY AND ALKANTPAN

Northern Cape where Alkantpan is located was declared the Central Astronomy Advantage Area through the Astronomy Geographic Advantage Act (AGA Act). This implied that activities that may negatively affect the SKA were banned in the area. This negatively impacted on the testing activities which are the core business of Alkantpan. Armscor successfully negotiated with the Department of Science and Technology, SKA and Department of Defence for a co-existence agreement, which was entered into through a Memorandum of Understanding

TURNAROUND INITIATIVE

The Corporation embarked on a Turnaround programme in order to address the twin challenge of efficiency, effectiveness and financial sustainability. The objectives of this transformation were to enable Armscor to generate new revenue streams to ensure Armscor's relevance and sustainability as well to improve the efficiency of service delivery to various clients. Armscor's approved strategy identified key strategic initiatives (which are also key challenges) that had to be addressed to ensure successful implementation. These are listed as follows:

- Financial turnaround and Business re-orientation (Revenue Generation coupled with Cost Management).
- Acquisition excellence – deliver On-Time, In-Time.
- Technology advancement.
- Industry sustainability – support local suppliers, SMMEs & QSEs, Military Veterans.
- Stakeholder engagement.

The initial planning phase of the Turnaround programme for the implementation of the Armscor Strategy "In-Time, On-Time towards a Sustainable Future", was successful in outlining the current state of service delivery in Armscor from the client's perspective and designing an improved

and desirable future state. The result was an expansion of the vision and mission of the organisation to include the provision of Armscor services to domestic and international clients by means of a 1 year, 5 year and 10 year plan.

Throughout the first phase, all Armscor stakeholders were kept informed and updated through employee engagements sessions, news publications and workshops supported by change management and a programme management office. The planning phase produced an integrated implementation plan which informs the planning and preparation for the implementation in the second phase

IP REGULARISATION

Legal Framework Agreements were signed with Nanoteq (Pty) Ltd and the Reutech Group (which includes Reutech Solutions (Pty) Ltd, Reutech Radar Systems (Pty) Ltd, Reutech Communications (Pty) Ltd and Reutech Fuchs Electronics). These made provision for IP management and control, they also made provision for the abovementioned companies to sub-contract 40% of the workshare emanating from any Armscor order that will be placed on them.

FINANCIAL REPORTING

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

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

The Directors are of the opinion that the financial statements fairly present the financial position of the Corporation as at 31 March 2017 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 2017 to 31 March 2018 and is satisfied that adequate resources exist to sustain the Corporation's operations. Armscor is, furthermore, in discussion with the Department of Defence to ensure proper funding for the required functions to be performed. The directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

DIVIDENDS

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

POST BALANCE SHEET EVENTS

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

BOARD APPOINTMENTS

The Minister has renewed the contract of the current Board for another three (3) year term, starting from 1 May 2017 and has filled the three Board vacancies with the following new Board members; Ambassador TJ Ndhlovu, Ms. C Simpson and Ms T Mhlari.

DEATH OF CHIEF AUDIT EXECUTIVE

We were saddened by the loss of Mr Justice Motha, who was the Chief Audit Executive reporting to the Audit and Risk Committee. Mr Motha had an irrevocable commitment to his work and will be sadly missed.

LITIGATION

QUAKER PEACE CENTRE

The Plaintiff in this matter is the Quaker Peace Centre, a non-profit and public benefit organisation with place of business in Mowbray, Western Cape.

The plaintiff indicates 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 aircraft.

The Plaintiff alleges that the Procurement Agreement entered into with the supplier of the aircraft is invalid as the procurement was not done in accordance with a system which is fair, equitable, transparent, competitive and cost-effective as required by Section 217 of the

Constitution. Further the Loan Agreement concluded by the Minister of Finance was unauthorised and unlawful and therefore invalid as a result of non-compliance with the Exchequer Act, applicable at the time. The relief sought by the Plaintiff is to be granted an order directing the First (Government of the Republic of South Africa) and Second Defendant (Armcor) 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 and the Loan Agreement invalid. The matter is being defended.

BEVERLY SECURITIES

The action was brought against Armcor by Beverly Securities in the Civil Court of Lisbon for the alleged non-payment of commission in respect of the Oryx Helicopters of the South African Airforce. The value of the claim is approximately 192 million Euros. Armcor is opposing the matter and has filed the necessary papers in its defence. The court ruled that the preservation of evidence should be undertaken by the parties. This will mitigate the risk of losing important evidence due to old age of witnesses.

Following the preservation of evidence in South Africa on commission during 2015, the plaintiff proceeded to present evidence of Portuguese citizens in Lisbon during July 2015. The plaintiff also requested the preservation of evidence of another two South African citizens which took place during April 2016.

The plaintiff has during October 2016 submitted an application to the Court in Lisbon to obtain an order to appoint a commission to obtain the evidence of a certain witness in Ireland. The plaintiff indicated in its application that the witness is domiciled in Ireland. Armcor has established that the said witness is resident in George in the Western Cape and is conducting his business in that area and therefore opposed the application. The court has ruled in favour of the plaintiff and the evidence would therefore be preserved in Ireland. Armcor awaits a date in this respect. The prospect of success in the defence of the matter still remains good.

NEW GENERATION ARMS MANAGEMENT (PTY) LTD (NGAM)

The matter relates to the recovery by Armscor of the amount of approximately R6.1m from NGAM. The amount is in respect of statutory cost paid by Armscor to SARS on behalf of NGAM. Armscor obtained default judgment against NGAM and while proceeding with the necessary execution steps, Armscor received a notice of application for rescission of the default judgement. Armscor has opposed the application. Despite formal notification to the Applicant to apply for a Court date, it has failed to do so. Armscor has instructed its attorney to enrol the matter accordingly with a view of dismissing the matter. Subsequently, Armscor was formally notified of liquidation proceedings against NGAM. The matter is still proceeding.

STERADIAN CONSULTING (PTY) LTD

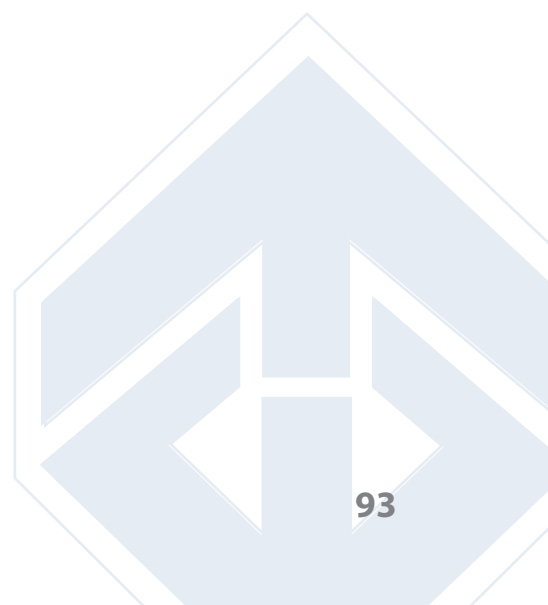
The legal action was instituted against Armscor by Steradian Consulting (Pty) Ltd for the recovery of damages allegedly suffered as a result of the loss of prospective profit in the amount of approximately R9m. The claim of the plaintiff was based on the cancellation of two Requests for Proposals (RFP) issued by Armscor.

The plaintiff has requested postponement of the matter indefinitely. The plaintiff has to date not taken any action on this matter. Armscor has instructed its attorneys to enrol the matter with a view of dismissing the matter.

VAN TONDER

Armscor had reviewed the CCMA ruling in which a certain ex-employee alleged constructive dismissal and the CCMA found in favour of the employee. On review, the matter was remitted to the CCMA to be determined afresh and to use the correct test relating to constructive dismissal. The CCMA found in favour of the employee. The matter was again reviewed and the Labour Court found in favour of Armscor.

Pursuant to the unfavourable outcome, the former employee lodged an application for leave to appeal and the application was dismissed by the Labour court and subsequently petitioned the Labour Appeal Court and the Court has granted such leave to appeal. The matter is ongoing.



PERFORMANCE AGAINST GOALS

OPERATIONAL OBJECTIVES FOR THE 2016/2017 FINANCIAL YEAR

The Armscor three year integrated 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 SLA with the DOD, while the second category measures the attainment of the strategic objectives of the Group.

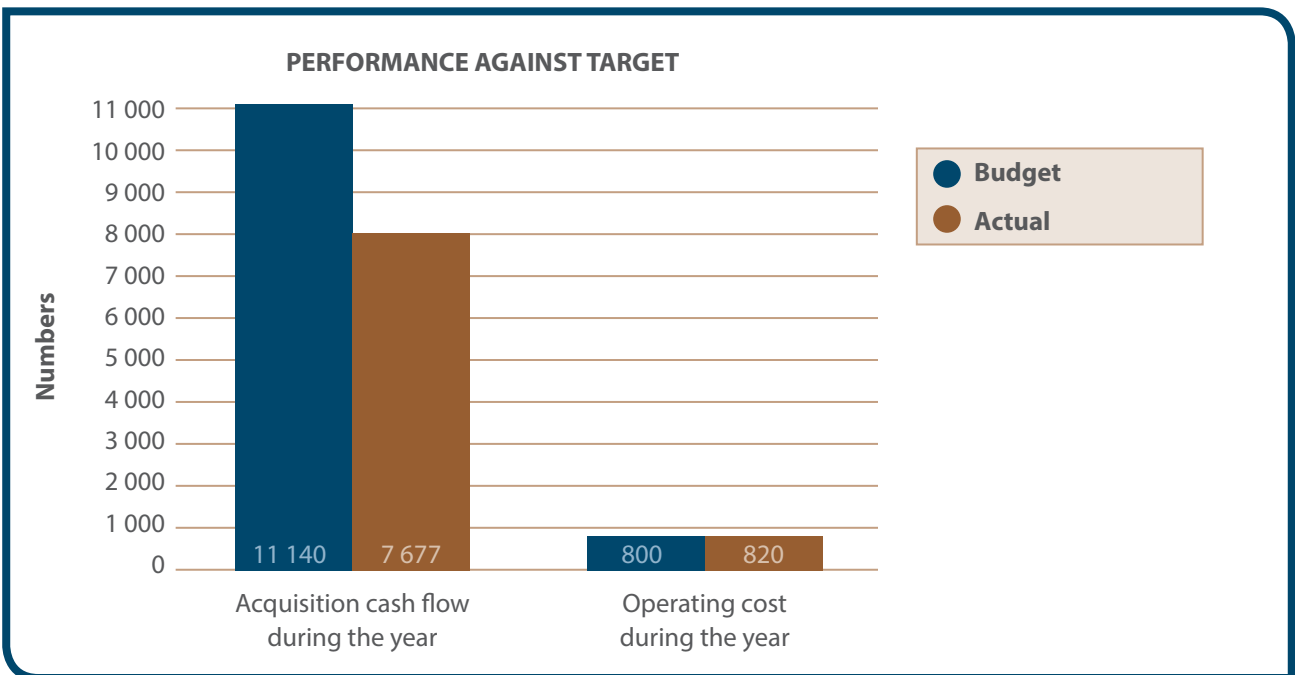
PERFORMANCE AGAINST GOALS

In addition to the above categories, Armscor uses an overall efficiency measure, which is the cost of acquisition. This measure reflects the ratio of operating cost incurred versus the acquisition cash flow during the reporting period, taking into consideration the baseline for contracting, and the agreed performance requirement to commit 95% thereof, while contractual payments should be 95% of the committed amount.

Acquisition cost:	2016/17	2015/16
Acquisition cost based on calculated cash flow (budgeted):	7,18%	7,58%
Acquisition cost based on actual cash flow:	10,68 %	9,42%

The actual cost of acquisition exceeded the budgeted cost mainly due to:

- The actual operating expenditure of R820,3m represents a 2,56% increase from the budgeted operating expenditure of R799,8m which is due mainly due to the increased depreciation as a result of the revaluation of fixed assets.
- Reduced actual cash flow due to reasons as stated under Acquisition performance on page 23.
- Requirements to the value of R418,4 m included in the budgeted baseline that were not received from the Department of Defence.



Performance against the Service Level Agreement Objectives 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 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 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 (DIP)

Target set to measure the execution of DIP obligations in terms of the SLA and in compliance with the Armscor Act.

GOAL 5 – MANAGEMENT AND EXECUTION OF DEFENCE TECHNOLOGY, RESEARCH, TEST AND EVALUATION REQUIREMENTS OF THE DEPARTMENT OF DEFENCE

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

GOAL 6 – PERFORMANCE AGAINST MANDATE (SA NAVY – DOCKYARD PERFORMANCE MANAGEMENT AGREEMENT)

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

GOAL 1: CAT 1 CAPITAL DEFENCE MATÉRIEL ACQUISITION EXCLUDING STRATEGIC DEFENCE ACQUISITION BUT INCLUDING TECHNOLOGY ACQUISITION				
KEY PERFORMANCE INDICATOR (PROJECTS)	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL	
1.1 Contracts to be placed by Armscor Armscor's target of 95% commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid from the DOD.	95%	100%	DOD requirements to the value of R597.905m were received. Armscor committed R597.905m of the abovementioned funds, resulting in an achievement of 100%. Objective exceeded.	
1.2 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. Actual cash flow will be measured against planned cash-flow in terms of first revision and adjusted for factors beyond Armscor's control. Furthermore, cash flow is updated on an on-going basis with commitments during the year.	95%	99.26%	The planned cash flow for the first revision was R5.736bn. Armscor managed to realise cash flow to the value of R3.925bn resulting in an achievement of 68.43%. Adjustments for factors beyond Armscor's control amounted to R1.768bn. This results in a final achievement of 99.26%. Objective exceeded.	

GOAL 2: SYSTEM SUPPORT: ACQUISITION AND PROCUREMENT

KEY PERFORMANCE INDICATOR (OPERATIONAL FUNDS)	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
2.1 Contracts to be placed by Armscor. Armscor's target of 95% 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.	95%	99.90%	DOD requirements to the value of R685.110m were received. Armscor committed R684.403m of the above mentioned funds resulting in an achievement of 99.90%. Objective exceeded.
2.2 Cash-flow. 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. Actual cash flow will be measured against planned cash flow, in terms of the first revision, and adjusted for factors beyond Armscor's control. Furthermore, cash flow is updated on an ongoing basis with commitments during year.	95%	101.56%	The planned cash flow for the first revision was R4.007bn. Armscor managed to realise cash flow to the value of R3.597bn resulting in an achievement of 89.78%. Adjustments for factors beyond Armscor's control amounted to R472.178m. This results in a final achievement of 101.56%. Objective exceeded.

GOAL 3: SCHEDULE PLACEMENT

KEY PERFORMANCE INDICATOR (PROJECTS)	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
3.1 Average time taken from receipt of requirement (URR for capital acquisition) to placement of contract.	60 days for shortened process COTS items.	60 days	An average of 60 days taken from receipt of obligation to placement of contract. Objective achieved.
	90 days for standard acquisition / procurement.	93 days	An average of 93 days taken from receipt of obligation to placement of contract. Objective not achieved.
	270 days for SDA acquisition programs	111.58 days	An average of 111.58 days taken from receipt of obligation to placement of contract. Objective exceeded.

GOAL 4: MANAGEMENT OF DEFENCE INDUSTRIAL PARTICIPATION (DIP)

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

KEY PERFORMANCE INDICATOR (PROJECTS)	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
4.1 Value of DIP credits to be granted to overseas suppliers. Active Portfolio:	Credits to be approved by 2017-03-31 for active portfolio R135m	R135.5m	DIP credits to the value of R135 471 664 have been awarded during the 2016/17 financial year. Objective exceeded.

GOAL 5: MANAGEMENT AND EXECUTION OF DEFENCE TECHNOLOGY, RESEARCH, TEST AND EVALUATION REQUIREMENTS OF THE DEPARTMENT OF DEFENCE				
KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
5.1	Armcor Research & Development to achieve contractual milestones / deliveries as per agreed Memoranda of Agreement and orders received for the financial year.	95%	96.67%	<p>Contracts to the value of R227 320 574 were concluded for the 2016/17 financial year.</p> <p>Contractual milestones / deliveries to the value of R219 744 240 were realised, resulting in a 96.67% achievement</p> <p>Objective exceeded.</p>

GOAL 6: MANAGEMENT AND PERFORMANCE AGAINST DOCKYARD MANDATE (SA NAVY / DOCKYARD PERFORMANCE MANAGEMENT IN TERMS OF SERVICE LEVEL AGREEMENT WITH THE SA NAVY AGREEMENT)				
KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
6.1	Ensure adherence to Project contractual milestone planned dates, as approved in the project plan.	90%	95.20%	<p>Measurement is for projects taken on by the Dockyard in accordance with available resources and under full Dockyard management control.</p> <p>All projects signed off by the SA Navy.</p> <p>Objective exceeded.</p>
6.1.1	SAS UMZIMKULU (DED)	90%	98%	<p>SAS UMSIMKULU (DED)</p> <p>Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 98% performance against a target of 90%.</p> <p>Objective exceeded.</p>
6.1.2	SAS MANTHATISI (DED)	90%	97%	<p>SAS MANTHATISI (DED)</p> <p>Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 97% performance against a target of 90%.</p> <p>Objective exceeded.</p>
6.1.3	SAS MAKHANDA (DED)	90%	95%	<p>SAS MAKHANDA (DED)</p> <p>Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 95% performance against a target of 90%.</p> <p>Objective exceeded.</p>
6.1.4	SAS MENDI (DED)	90%	96%	<p>SAS MENDI (DED)</p> <p>Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 96% performance against a target of 90%.</p> <p>Objective exceeded.</p>
6.1.5	TUG UMALUSI (DED)	90%	90%	<p>TUG UMALUSI (DED)</p> <p>Project has successfully been completed and signed off by the SA Navy. Dockyard achieved 90% performance against a target of 90%.</p> <p>Objective achieved.</p>

GOAL 6: MANAGEMENT AND PERFORMANCE AGAINST DOCKYARD MANDATE (SA NAVY / DOCKYARD PERFORMANCE MANAGEMENT IN TERMS OF SERVICE LEVEL AGREEMENT WITH THE SA NAVY AGREEMENT)

KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
6.2	<p>Manage project finances in accordance with approved budget (financial authorities) and cash flow plan.</p> <p>Ensure 90% compliance with projects cash flow management.</p>	90%	97.10%	<p>Financial Authorities were committed within 60 days. Cash flow of 97.10% achieved and signed off by the SA Navy.</p> <p>Objective exceeded.</p>
6.3	<p>Provision of Ancillary Services as defined by SA Navy, (power generation station, air supply, water supply, crane support requirements, etc.) as per Dockyard funded business plan.</p>	95%	100%	<p>Ancillary Services as requested by SA Navy were delivered and signed off.</p> <p>Objective exceeded.</p>
6.4	<p>Ensure that the training provided is in accordance with the plan submitted by the SA Navy reporting period.</p> <p>90% compliance with SA Navy requirements.</p>	90%	100%	<p>Training requirements requested by the SA Navy were provided and signed off by the SA Navy.</p> <p>Objective exceeded.</p>
6.5	<p>Ensure that quarterly reports are provided to the 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.</p>	90%	100%	<p>All quarterly reports submitted to the Flag Officer Fleet on or prior to the delivery date, were signed off by the SA Navy.</p> <p>Objective exceeded.</p>

PERFORMANCE AGAINST GROUP CORPORATE OBJECTIVES

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

STRATEGIC OBJECTIVE 1: FINANCIAL TURNAROUND AND BUSINESS RE-ORIENTATION				
KEY PERFORMANCE INDICATOR	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL	
1.1	Financing of Armscor			
1.1.1	Reduce Group deficit.	10%	39.2%	Total deficit budgeted for R208.6m - actual deficit of R126.9m. Objective exceeded.
	Increase income, including commercial income from the existing facilities of Armscor R&D (baseline was based on the planned figure for FY2015/16).	5% (R126 847 335) (Baseline for 2016/17 is based on planned figure of 2015/16)	21.5%	Total commercial income received: R154 152 389. Objective exceeded.
1.2	Generate additional income			
1.2.1	Earn a fee based income from brokering deals:			
	<ul style="list-style-type: none"> Draft plan and process, and identify opportunities. 	31 March 2017	27 February 2017	Opportunities for income generation were identified under the Turnaround sub project "Leveraging core strengths", as well as opportunities which sell Armscor services such as Acquisition and asset management services. The document that details the leveraging of core strengths was completed on 27 February 2017. Objective exceeded.
1.3	New business initiatives			
	Define process and structure to sweat assets of SANDF.	31 March 2017	9 March 2017	"Approach and Methodology for Asset Sweating and Implementation plan" was approved by the Board on 9 March 2017. Objective achieved.

KEY PERFORMANCE INDICATOR	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
1.3.1	Profile Armscor personnel against the requirements of Armscor Acquisition, Armscor R&D and a possibly-to-be-established Business Development / Deal making entity.	Profiling completion date 31 May 2016	<p>26 April 2017</p> <p>Profiling was delayed due to the Turnaround contract only being finalised in June 2016, which was a prerequisite for profiling.</p> <p>New position job profiles were developed and approved for:</p> <ul style="list-style-type: none"> • Acquisition; • TMA&I; • Finance; • Sustainability; • Procurement; and • Enterprise Program Management office. <p>Objective not achieved.</p>
1.4	Intellectual Property (IP) related technologies		
1.4.1	Commercialise IP related technologies.	Commercialise three IP initiatives	<p>Five P initiatives commercialised.</p> <p>The following five IP exploitation requests were approved by the Board:</p> <ul style="list-style-type: none"> • Exploitation of the SAAF Hawk 120 and Cheetah aircraft test flight and geometry data by the CSIR in order to perform weapons integration evaluation for Denel Dynamics. • Exploitation of SigmaHat, and Sensors and Electronic Warfare Engagement Simulator (SEWES). • IP Ownership and royalty sharing agreement on version 4 of the Ultrasonic Broken Rail Detector (UBRD). • IP in respect of the Command and Control System established under Project Legend. • IP established under the lessons identified and learned Project LIALLS). <p>Objective exceeded.</p>
1.4.2	Increase the income earned from IP by 10% from R7 135 410 to R7 848 951.	10%	<p>55.7%</p> <p>Royalty account balance on 2016/03/31 was R7 135 410.</p> <p>Royalties increased from R7 135 410 to R11 112 925.60 before disbursement to Armscor for IP management.</p> <p>Increase in Royalty Income for 2016/17 financial year thus R3 977 515.60 (55.7%).</p> <p>Objective exceeded.</p>
1.4.3	Maintain a complete and comprehensive IP Register which ensures the maintenance of an unqualified audit opinion in respect of Intangible Capital Assets under Armscor's management.	31 March 2017	<p>31 March 2017</p> <p>Complete and comprehensive IP register maintained. No qualifications due to intangible assets managed by Armscor.</p> <p>Objective achieved.</p>

KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
1.4.4	Maintain approved IP Royalties Management and Disbursement System.	31 March 2017	31 March 2017	IP Royalties Management and Disbursement System maintained during the 2016/17 financial year. Objective achieved.
1.5	Business Development Unit			
1.5.1	Sustainability Unit (previously Business Development). <ul style="list-style-type: none"> Define a Sustainability Unit in line with the Corporate Strategy. 	31 December 2016	12 October 2016	A Sustainability Unit was defined (operating model; commercial framework; processes, skills, governance, organisational design, etc.) on 12 October 2016. Organisational structure further refined on 13 March 2017. Objective exceeded.
1.6	Human Resource re-alignment, culture and structure change			
1.6.1	Ensure skills attraction, development and retention in relation to capabilities required for effective operations in Armscor. Grow human capability in line with business growth opportunities and demand: <ul style="list-style-type: none"> Internal restructuring. 	31 March 2017	16 March 2017	New operating model for the organisation (incl. Acquisition, Procurement, R&D and support functions) was developed. Operating module addresses people, governance structure, facilities and IT. Internal restructuring to be implemented after Board approval. Objective exceeded.
1.7	Transformation of the organisation:			
1.7.1	Achievement of approved Equity Plan that is directed towards:			
	<ul style="list-style-type: none"> Increasing race representation. 	68%	77.38%	Goal: 1 177 out of a total of 1 605 employees must be black. Achieved: 1 235 employees out of 1 596 employees are black. Objective exceeded.
	<ul style="list-style-type: none"> Improving gender composition. 	36%	36%	Goal: 597 out of a total of 1 605 employees must be female. Achieved: 570 employees out of 1 596 employees are female. Objective achieved.
1.7.2	Controllable staff turnover in technical positions, excluding retirements.	<4.5%	3.04%	There were 20 (out of 658 technical positions) resignations for the year: AS Level –5 STS level -7 MP level -7 SU level - 2 Objective exceeded.

KEY PERFORMANCE INDICATOR	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
1.7.3	Skills Development Programme.		
	Provision of bursaries for full-time studies (numbers).	30 students	30 students
			<p>The corporate target that was set for awarding bursaries in 2016/17 was 30 and has been achieved</p> <p>Bursaries were given for:</p> <ul style="list-style-type: none"> • BSc. Applied Physics & Maths: 1 • BSc. Hons. Human Kinetics & Ergonomics: 2 • BSc. Hons. Human Kinetics Ergonomics & Mathematical Statistics: 1 • BSc Hons. Psychology & Human Kinetics & Ergonomics: 1 • BSc. Physics & Computer Science: 1 • BEng. Electrical: 1 • BEng. Mechanical: 1 • BSc. Eng. Mechanical: 4 • BSc. Eng. Electrical: 5 • BSc. Eng. Electronics: 1 • BEng. Mechatronics: 3 • BCom. Accounting: 1 • BCom Finance: 1 • BSc. Eng. Aeronautical: 2 • BSc. Biochemistry & Botany: 1 • BSc. Chemistry: 1 • BSc. GIS & Computer Science: 1 • ND Electrical & Electronics: 1 • ND Mechanical: 1 <p>Objective achieved.</p>
	Appointment and development of Talent Development Programme employees (number of employees through programme).	35 employees	35 employees
			<p>35 talent development candidates went through the programme.</p> <p>Objective achieved.</p>
1.7.4	Succession Planning.		
	Percentage compliance with Succession Planning (key identified positions).	80%	80%
			<p>80% compliance with the development plan as contracted with successors.</p> <p>Objective achieved.</p>

KEY PERFORMANCE INDICATOR	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
1.8	Infrastructure renewal:		
1.8.1	Renew application systems to improve effectiveness and efficiency. <ul style="list-style-type: none"> • Implement Finance Module. 	31 March 2017	31 March 2017 Armscor is developing an ERP application system on the iDempiere platform. A delay was experienced with the development of the Budget and Forecasting Module that also influenced the Finance Model. The project to improve the effectiveness and efficiency by renewing the Finance Module application system is currently in the analysis stage. The implementation of the Finance Module was delayed due to challenges experienced in the development of the Budgeting Module. The revised implementation date was extended to March 2018. Objective not achieved.
1.8.2	Improve Information Security. <ul style="list-style-type: none"> • Implement Data Leakage Solution. 	31 March 2017	31 March 2017 The overall objective was to improve information security. While the initial focus was on just implementing just one solution to address an aspect of data leakage, the focus quickly moved to a lot more than that due to the challenges that were anticipated, some of which manifested. Delivery has thus been beyond the initial limited scope of just a single tool. This has included training people to deal with the problem of data breach beyond mere leakage. A project to implement a “proof of concept” for the Data Leakage Prevention (DLP) Solution to improve information security in Armscor was initiated. However, the scope of the project was extended for the following reasons: <ul style="list-style-type: none"> • The data protection efforts were focusing only on technology; • Too much focus on technical implementation details. • Lack of integration with existing processes; • Lack of holistic data protection strategy / policy.

KEY PERFORMANCE INDICATOR	GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
			<p>The project was viewed as an IT project only.</p> <p>An establishment of a DLP programme that will encompass people, technology and process.</p> <p>Because of the above reasons, the activities described below were carried out:</p> <p>Due to above scope increase, the following actions were carried out:</p> <ul style="list-style-type: none"> • Deployment of the TACACS+ (Terminal Access Controller Access-Control System Plus) server for administrator authentication. • Implementation of a Patch Management Server to deploy patches. • Implementation of a new Armscor website with enhanced security features. • Conducted internal and external security vulnerability assessments: <ul style="list-style-type: none"> o Implemented controls to address some of the identified vulnerabilities. o Most of vulnerable servers and hosts are the old legacy systems and cannot be patched. • Conducted Firewall ruleset assessment: <ul style="list-style-type: none"> o Removed all obsolete access-list rules and ports on the firewalls. • 15 IT technical personnel attended information security training. • Establishment of Armscor Cybersecurity workgroup. • Establishment of an inter-governmental Cybersecurity workgroup. • Proactive monitoring of information security incidents beyond the Armscor environment. <p>Objective achieved.</p>

STRATEGIC OBJECTIVE 2: ACQUISITION EXCELLENCE

KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
2.1	Improve contracting process:			
2.1.1	Implement shortened contracting process for Commercial and Military off the shelf procurement.	Approval of updated practices 31 March 2017	26 January 2017	The shortened contracting process was implemented by amending the existing A-PRAC-1034. This was promulgated on 26 January 2017. Objective exceeded.
2.1.2	Investigate and implement e-procurement for identified Commercial and Military off the shelf procurement.	Report on the viability of the e-procurement process. 31 March 2017	31 March 2017	The requirements for an e-procurement solution have not been developed due to a delay in the ERP project. An e-procurement solution will be designed as part of the detailed requirements gathering process for acquisition, and the subsequent analysis process. Objective not achieved.
2.2	Defence Industrial Participation (DIP):			
2.2.1	Value of DIP credits approved, aligned with revised DIP Policy prescripts.	R135 009 149	R135 471 664	DIP credits to the value of R135 471 664 have been awarded during the 2016/17 financial year. Objective exceeded.
2.3	Capability Based Acquisition:			
2.3.1	Engage with the DOD to influence better alignment of capital projects.	First iteration of optimised master plan to be completed.	DOD placed a hold on the project in August 2016.	Armscor participated in the DOD Through Life Capability Management (TLCM) project, which amongst other things, has the intention to develop a model whereby capital projects can be better aligned. The intention of the past year was to develop a first iteration of an optimized capital acquisition master plan, however, the DOD placed a hold on the project in August 2016. Therefore, this objective could not be accomplished as the TLCM project is a DOD responsibility. No opportunity to perform.

STRATEGIC OBJECTIVE 3: TECHNOLOGY ADVANCEMENT				
KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
3.1	Technology Management, development and test services:			
3.1.1	Development and Test Services: Percentage compliance with Technology Development Master Plan in accordance with SLA between Armscor and the DOD.	90%	92%	<p>Orders placed:</p> <p>Budget: R853 806 554</p> <p>Orders Placed: R 846 789 149 (99%).</p> <p>Cash flow performance:</p> <p>Cash flow performance against orders placed, taking into consideration factors beyond Armscor's control, amounts to R778 937 696. This results in a final achievement of 92%.</p> <p>Objective exceeded.</p>
3.2	Marketing of Research and Development facilities:			
	Marketing of Research and Development facilities through the Military Attaché and Advisor Corps (MAAC) sessions and touring the facilities.	31 March 2017	09 March 2017	<p>The Armscor Annual MAAC Session was held on 09 March 2017, where Armscor's value proposition / capabilities were presented.</p> <p>Objective achieved.</p>

STRATEGIC OBJECTIVE 4: INDUSTRY SUSTAINABILITY				
KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
4.1	Marketing support to Defence Industry:			
	Shows and Exhibitions:	31 March 2017	29 March 2017	<p>Armscor facilitated and participated at the following exhibitions:</p> <ul style="list-style-type: none"> • DSA 2016 (18-21 April 2016 in Kuala Lumpur, Malaysia); • Eurosatory 2016 (13-17 June 2016 in Paris, France); • INDODEFENCE 2016 (2-5 November 2016 in Jakarta, Indonesia); • IDEX 2017 (19-23 February 2017 in Abu Dhabi, UAE); • Shield Africa 2017 (24-27 January 2017 in Abidjan, Côte d'Ivoire); • Aid and International Development Forum Africa Summit 2017 (28 February – 1 March 2017 in Nairobi, Kenya); • Securex West Africa 2017 (21-23 March 2017 in Lagos, Nigeria); • Coastal and Maritime Surveillance Africa 2017 (27-29 March 2017 in Accra, Ghana). <p>Objective achieved.</p>

KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
4.2	Support the development of Local Industry and Industry Transformation:			
4.2.1	Increase percentage of local industry spend in respect of Special Defence Account and General Defence Account managed by Armscor (increase based on previous year's spending).	1% improvement	(2,66%)	<p>2015/16: Total payment for year: R7 194bn; Local: R5 683bn.</p> <p>2016/17: Total payments for year: R7 523bn; Local: R5 743bn.</p> <p>Actual local spending represents 76.34% of total compared to 79% for 2015/16. This results in a decrease of 2.66% compared to previous year's percentage spending.</p> <p>The foreign payment portion was affected by an expedited payment of R420m to a foreign supplier in terms of earlier delivery in the event this payment is excluded the local spending would represent 81% of total spending.</p> <p>Objective not achieved.</p>
4.2.2	Implement position paper on need for the Defence Sector Charter.	31 March 2017	31 March 2017	<p>The position paper was accepted in February 2016. The Steering Committee for the Defence Sector Charter was formed in March 2016. Stakeholders' consultations were held from April to December 2016.</p> <p>The Charter was adopted in January 2017 by the Steering Committee and stakeholders.</p> <p>It was approved by the Minister of Defence and Military Veterans at the end of March 2017 and submitted to the Minister of Trade and Industry for public hearings, gazetting and implementation.</p> <p>Objective achieved.</p>
4.3	Military Veterans Support:			
4.3.1	Establish and maintain Military Veterans database for identification of specific projects.	31 March 2017	31 March 2017	<p>Supplier database was established for Military Veterans, and projects are in process.</p> <p>Objective achieved.</p>
4.3.2	Full implementation and maintenance of the Enterprise Supplier Development framework and reporting system, including Military Veterans.	31 March 2017	31 March 2017	<p>A sub-contracting clause to include ESD beneficiaries and Military Veterans has been included in various contracts. This clause benefits the ESD beneficiaries, and where practical, Military Veterans.</p> <p>Objective achieved.</p>

STRATEGIC OBJECTIVE 5: STAKEHOLDER ENGAGEMENT

KEY PERFORMANCE INDICATOR		GOAL	ACHIEVED	PERFORMANCE AGAINST GOAL
5.1	Stakeholder Engagement Strategy:			
5.1.1	Stakeholder Satisfaction Improvement Survey (conducted every second year).	31 March 2017 (2% improvement)	22 March 2017	This survey is conducted biennially. A goal of 76.5% was set, based on the required 2% increase on the previous baseline of 75%. Actual achievement was 77%. Objective achieved.
5.2	Marketing Support Organisation:			
5.2.1	Establishment of African Stand at Africa Aerospace & Defence Exhibition (AAD).	30 September 2016	18 September 2016	AAD took place from 14-18 September 2017 at Waterkloof Air Force Base, and Armscor was the lead partner with the theme "Supporting Peacekeeping Operations in Africa". A total of 444 local and international media were represented at AAD. For the first time, AAD hosted an Africa Pavilion represented by Namibia, Nigeria, Uganda, South Sudan and Zimbabwe, under the auspices of the African Union. Armscor's 2016 AAD stand won the best design award at EXSALLENCE award 2016. Objective achieved.
5.2.2	Increase the level of attendance at AAD on public days.	30 September 2016	18 September 2016	AAD 2016 was the biggest AAD show yet. The expo shows a 21% increase in the number of exhibitors from 37 countries; an increase in the number of national pavilions from 11 to 13; an increase in trade visitors to 33 862 from 29 314; an increase in the number of countries who visited the event from 86 to 105. However, there was a decrease of general public visitors from 74 398 to 56 924, due to the extreme weather conditions and the cancellation of air displays on the last day of AAD 2016, which had an impact on the opportunity to increase the level of attendance by the public. Objective exceeded.
5.2.3	Positive AAD Client Survey.	30 September 2016 (72.4%)	18 September 2016 (75%)	There was an improvement in the AAD Client Survey from 72.4% (2014/15) to 75% (2016/17). Objective exceeded.

GROUP: FIVE YEAR REVIEW (unaudited)

AS AT 31 MARCH 2017

	2017	2016	2015	2014	2013
	Rm	Rm	Rm	Rm	Rm
STATEMENT OF FINANCIAL POSITION					
NET ASSETS					
Property, plant and equipment	1 463,1	1 520,1	1 189,1	1 229,8	1 322,0
Investment property	72,9	72,9	110,0	110,0	0,0
Intangible assets	12,8	7,1	0,9	1,1	0,9
Other non-current assets	3,1	-	1,3	-	0,9
Other non-current liabilities	(47,3)	(59,3)	(87,2)	(166,6)	(108,7)
Net current assets	574,3	657,4	604,6	534,3	442,4
Financial instruments	131,4	129,1	747,7	712,5	607,5
Post-retirement medical benefit liability	(136,6)	(126,7)	(571,4)	(513,1)	(460,3)
	2 073,7	2 200,6	1 995,0	1 908,0	1 804,7
EQUITY AND LIABILITIES					
Ordinary shareholders' interest	2 073,7	2 200,6	1 995,0	1 908,0	1 804,7
STATEMENT OF COMPREHENSIVE INCOME					
REVENUE					
Sale of goods and services	403,3	382,4	400,5	345,5	308,2
Allocation from the State budget for operating expenditure	860,2	858,7	913,3	870,7	748,1
Finance income	75,0	73,7	82,3	48,8	41,1
Rental income	24,4	55,6	50,5	46,0	42,6
Other income	36,0	41,8	78,5	136,6	116,0
	1 398,9	1 412,2	1 525,1	1 447,6	1 256,0
TOTAL COMPREHENSIVE (LOSS)/ INCOME	(126,9)	208,5	84,2	103,3	1 193,6

GROUP VALUE-ADDED STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

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

	2017	%	2016	%
	Rm		Rm	
Sale of goods and services	403,3		382,3	
Allocation for operating expenditure (Government grant)	860,2		858,7	
Rental income	24,4		55,6	
Other income	39,7		41,7	
Finance income	75,0		73,7	
Revenue	1 402,6		1 412,0	
Less: Paid to suppliers for materials and services	(436,8)		(116,5)	
TOTAL VALUE ADDED	965,8	100	1 295,5	100
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	996,1	103	977,9	75
To Government as taxation	14,0	2	35,8	3
TOTAL VALUE ADDED DISTRIBUTED	1 010,1	105	1 013,7	78
Portion of value added reinvested to sustain and expand the business	(44,3)	-5	281,8	22
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	965,8	100	1 295,5	100
TAXATION				
Paid in taxes to Government				
• Income tax paid	1,4		23,7	
• Rates and taxes to local authorities	12,6		12,1	
Collected on behalf of, and paid over to Government	14,0		35,8	
• Employees taxation deducted from remuneration paid	227,6		355,4	
• Unemployment Insurance Fund	2,8		2,6	
• Net value added taxation (VAT)	93,0		109,8	
	323,4		467,8	

ARMSCOR GROUP FINANCIAL RESULTS

FOR THE YEAR ENDED 31 MARCH 2017

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

STATEMENT OF FINANCIAL POSITION

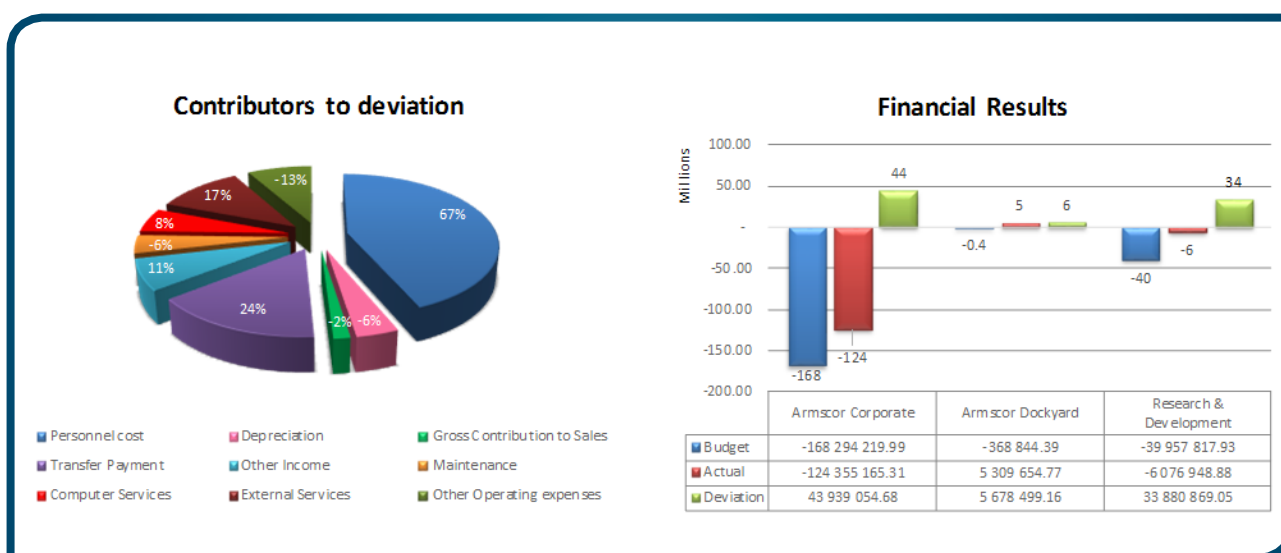
Group reserves decreased from R2 125,6 million to R1 998,7 million mainly as a result of the deficit during the year. Cash and cash equivalents form a significant part of the assets, and are reserved to finance specific

future obligations. The Group invested R32,7 million in acquiring plant, intangible assets and equipment to capacitate existing facilities.

STATEMENT OF COMPREHENSIVE INCOME

The net financial result of the Group reflects a deficit of R126,9 million compared to a surplus of R208,5 million in the previous financial year. Total revenue increased with 9,6% while operating expenditure, excluding depreciation, decreased by 6,3%.

COMPARISON WITH BUDGET



If compared with the Group budgeted deficit of R208,6 million (excluding the impact of the Armscor Medical Benefit Fund), the main contributors to the deviation for the year under review are the following:

CONTRIBUTORS TO DEVIATION

Personnel Costs

The net underspending in personnel cost is due to the freezing of vacancies, except for those deemed critical for the continued operations of the organisation.

Allocation for operating expenditure/Gross contributions

Allocation for operating expenditure is received to defray the cost of the Group's operations for the year under review, to address additional services to be rendered, and to ensure that Armscor's contracted service delivery to the Department of Defence (DOD), in terms of the Service Level Agreement (SLA), is effectively and efficiently met.

The transfer payment of R860,2 million includes R22,2 million that was recognised by the Dockyard from income that was deferred in previous years.

OTHER INCOME

The increase in other income compared to the budget was mainly due to funds received for artisan training.

OTHER OPERATING EXPENSES

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

DEPRECIATION

The depreciation charge was more than the budget due to the revaluation of properties that occurred after the budget was approved.

MAINTENANCE

The spending on maintenance increased as a result of costs incurred to maintain the Dockyard facilities.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	NOTES	GROUP	
		2017	RESTATED 2016
		Rm	Rm
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	1 463,1	1 520,1
Investment property	3	72,9	72,9
Intangible assets	4	12,8	7,1
Investment in a joint venture	5	3,1	-
Financial instruments	15	131,4	129,1
		1 683,3	1 729,2
CURRENT ASSETS			
Assets held for sale	2	0,4	0,5
Inventories	7	29,6	7,5
Trade and other receivables	8	162,7	199,9
Cash and short term deposits	9	764,9	865,8
Taxation	14	26,0	25,9
		983,6	1 099,6
		2 666,9	2 828,8
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Ordinary share capital	10	75,0	75,0
Non-distributable reserves		1 998,7	2 125,6
		2 073,7	2 200,6
ORDINARY SHAREHOLDERS INTEREST			
LIABILITIES			
NON-CURRENT LIABILITIES			
Post-retirement medical benefit liability	6	136,6	126,7
Deferred tax	14	5,0	5,0
Deferred income	11	42,3	54,3
		183,9	186,0
CURRENT LIABILITIES			
Trade and other payables	12	251,8	277,4
Provisions	13	121,2	117,9
Deferred income	11	36,3	46,9
		409,3	442,2
		593,2	628,2
TOTAL LIABILITIES		593,2	628,2
TOTAL EQUITY AND LIABILITIES		2 666,9	2 828,8

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	GROUP	
		2017	RESTATED 2016
		Rm	Rm
Revenue	16	403,3	382,4
Cost of sales	17	(135,3)	(115,6)
GROSS PROFIT	18	268,0	266,8
Other operating income	19	60,4	97,4
Allocation for operating expenditure (Government grant)	20	860,2	858,7
Operating expenses	21	(1 395,7)	(1 465,6)
OPERATING LOSS	22	(207,1)	(242,7)
Investment revenue	23	75,0	73,7
Share of profit/ (loss) in joint venture	5	6,5	(0,3)
LOSS BEFORE TAX		(125,6)	(169,3)
Taxation	14	(1,3)	13,0
LOSS AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS	24	(126,9)	(156,3)
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		-	364,8
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		(126,9)	208,5

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	SHARE CAPITAL	MARKETING PROMO- TION RESERVE	CAPITAL AND BUILDING MAINTENANCE RESERVE	COMPUTER UPGRADING RESERVE	INTERNAL INSURANCE RESERVE	REVALUA- TION RESERVE	GENERAL RESERVE	TOTAL EQUITY
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
Balance at 31 March 2015	75,0	12,1	22,6	15,0	18,9	1 083,7	767,7	1 995,0
Changes in equity								
Loss after tax	-	-	-	-	-	-	(160,7)	(160,7)
Revaluation gain	-	-	-	-	-	360,8	-	360,8
Transfer to/(from) reserves	-	(0,1)	-	-	(4,2)	-	1,5	(2,8)
Total changes	-	(0,1)	-	-	(4,2)	360,8	(159,2)	197,3
Balance at 31 March 2016	75,0	12,0	22,6	15,0	14,7	1 444,5	608,5	2 192,3
Restatement	-	-	-	-	-	4,0	4,3	8,3
Restated balance 31 March 2016	75,0	12,0	22,6	15,0	14,7	1 448,5	612,8	2 200,6
Changes in equity								
Loss after tax	-	-	-	-	-	-	(126,9)	(126,9)
Transfer to/(from) reserves	-	(4,2)	-	-	(2,7)	(16,4)	23,3	0,0
Total changes	-	(4,2)	-	-	(2,7)	(16,4)	(103,6)	(126,9)
Balance at 31 March 2017	75,0	7,8	22,6	15,0	12,0	1 432,1	509,2	2 073,7

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	GROUP	
		2017	2016
		Rm	Rm
OPERATING ACTIVITIES			
Cash receipts from customers		1 341,9	1 181,9
Cash paid to suppliers and employees		(1 485,0)	(1 828,4)
Cash generated from operations	25	(143,1)	(646,5)
Income tax paid		(1,4)	(23,7)
Interest income		75,0	73,7
Finance costs		(0,5)	(0,8)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(70,0)	(597,3)
INVESTING ACTIVITIES			
Purchase of property, plant & equipment	2	(26,5)	(31,6)
Proceeds from sale of property, plant & equipment	2	-	0,2
Purchase of other intangible assets	4	(6,8)	(6,6)
Decrease in investments		(2,5)	620,3
Dividends received		4,9	3,3
NET CASH FLOWS USED (IN)/FROM INVESTING ACTIVITIES		(30,9)	585,6
TOTAL CASH MOVEMENT FOR THE YEAR		(100,9)	(11,7)
CASH AT THE BEGINNING OF THE YEAR		865,8	877,5
TOTAL CASH AT END OF THE YEAR	9	764,9	865,8

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017

1. MANDATE

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

Armcor 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 Department of Defence effectively, efficiently and economically.

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

1.1 FINANCIAL POLICY

Activities are financed as follows:

Armcor's operating funds

Armcor's operating funds are obtained via the defence budget, and together with interest earned thereon, are

utilised to finance operating expenditure, the acquisition of fixed assets and expenditure for the creation and maintenance of facilities and services.

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.

Procurement of armaments

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

1.2 ACCOUNTING POLICY

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

1.3 CONSOLIDATION

Basis of consolidation

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

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

The results of subsidiaries are included for the duration in which the Group exercises control over the subsidiary. All inter-company and inter-divisional transactions, and resulting profits and losses between the Group

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

companies, are eliminated on consolidation. The Corporation carries its investments in subsidiaries at cost, less accumulated impairment losses in the financial statements.

1.3.1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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

a) Pension and other post-employment benefits

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

b) Impairment of financial assets

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

c) Impairment of non-financial assets

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

d) Provisions

Management determined an estimate based on the best available information.

1.3.2 PROPERTY, PLANT AND EQUIPMENT

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

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

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

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

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

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

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

a) Land and buildings

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

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

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

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation surplus in equity.

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

b) Plant and equipment

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

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

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

1.3.3 INVESTMENT PROPERTY

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

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

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

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

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

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

1.3.4 INTANGIBLE ASSETS

An intangible asset is recognised when:

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

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

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

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

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

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

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

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

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

a) Patents

Patents have been granted for periods ranging from ten to fifteen years respectively.

b) Computer software

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

1.3.5 INVENTORIES

Inventories are stated at the lower of cost (purchase cost) and net realisable value. Raw materials are calculated using the first in, first out method, except in the case of Hazmat Protective Systems where it is calculated at the weighted average. Write downs to the 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 the actual cost of direct materials and labour, and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

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

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

1.3.6 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 replacing 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 retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation, based on the revalued carrying amount and depreciation, based on the original cost of the asset.

1.3.7 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

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

financial statements, are recognised in profit or loss in the period in which they arise.

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

1.3.8 REVENUE RECOGNITION

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

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

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

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

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

Contract revenue comprises:

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

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

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

1.3.9 OTHER INCOME

a) Interest income

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

b) Rental income

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

c) Government grant

Government grant is recognised when there is reasonable assurance that:

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

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

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

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

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

Armstrong's operating funds are obtained via the defence budget, and recognised as a grant via revenue (transfer payment) as and when received,

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

and together with interest earned thereon are utilised to finance operating expenditure, the acquisition of fixed assets and expenditure for the creation of facilities and services.

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

d) Dividend income

Dividends are recognized in profit or loss when the Group's right to receive payment has been established.

1.3.10 INSURANCE AND RISK MANAGEMENT

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

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

1.3.11 FINANCIAL INSTRUMENTS

RECOGNITION AND MEASUREMENT

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired. A financial liability is

derecognised when the obligation under the liability is discharged or cancelled or expires.

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

FINANCIAL ASSETS

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

LOANS AND RECEIVABLES

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

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

a) Trade and other receivables

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

b) Cash and cash equivalents

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

c) Other loans

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

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

OFFSET

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

FINANCIAL LIABILITIES

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

FINANCIAL GUARANTEE CONTRACTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

FINANCIAL ASSETS CARRIED AT AMORTISED COST

The Group assesses at each reporting date, whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets is impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss

event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is objective evidence that an impairment loss has been incurred on a financial asset, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The amount of the impairment shall be recognised in the statement of comprehensive income.

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

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

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

a) Trade and other receivables

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

1.3.12 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the profit or loss, net of any reimbursement.

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

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

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 the Group department's performance as measured and expressed by their calculated performance score.

b) Provision for leave

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

1.3.13 LEASES

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

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

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

Leases of assets to the Group, under which all the risks and benefits of ownership are effectively retained by the

lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

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

OPERATING LEASES – LESSOR

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

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

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

OPERATING LEASES – LESSEE

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

1.3.14 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost, less any accumulated depreciation or amortisation, is recognised

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss, recognised in prior periods for assets other than goodwill, may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill, attributable to a reversal of an impairment loss, does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost, less the accumulated depreciation or amortisation other than goodwill, is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.3.15 FRUITLESS, WASTEFUL EXPENDITURE AND IRREGULAR EXPENDITURE

Fruitless and wasteful expenditure relate to expenditure which was made in vain, and which would have been avoided had reasonable care been exercised. Irregular expenditure relates to expenditure incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

1.3.16 SHARE CAPITAL AND EQUITY

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

1.3.17 EMPLOYEE BENEFITS

a) Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered, and are not discounted.

The expected cost of compensated absences is recognised as an expense, as the employees render services that increase their entitlement, or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense, when there is a legal or constructive obligation to make such payments as a result of past performance.

b) Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans, where the Group's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

c) Retirement benefits

The Group contributes towards, and operates the Armscor Defined Contribution Pension Fund and the Armscor Provident Fund, which offer benefits based on the contributions of, and on behalf of every member, as well as on investment yields.

The Group also provides post-retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

Actuarial gains or losses in respect of defined benefit plans are recognised as income or expense, if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

1.3.18 TAXATION

CURRENT TAXATION

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for the previous year.

DEFERRED TAXATION

Deferred taxation is provided using the financial position liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised in the income statement except to the extent that it relates to a transaction that is recorded directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.3.19 DISCONTINUED OPERATION

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

1.3.20 RESTATEMENTS

1.3.20.1 DEFENCE MATERIEL DISPOSALS TRANSACTIONS

A transaction previously entered into on behalf of the Department of Defence, was subsequently determined to be an Armscor transaction. The error was due to the change in risk and rewards attached. It was determined that the transaction was entered into by Armscor and the third party, as determined when applying IAS18 criteria relating to principle vs agent.

The transaction was entered into in the 2015/16 financial year, a certain portion of revenue and related cost were incurred and were supposed to be disclosed as part of Armscor's revenue, cost of sales and other related costs.

The impact of the error is as follows:

	Rm		
	AFTER ADJUSTMENT	ADJUSTMENT	BEFORE ADJUSTMENT
Sales	382,4	12,3	370,1
Cost of sales	115,6	6,2	109,4
Operating expenses	1 465,6	6,4	1 459,2
Other operating income	97,4	4,7	92,7
Retained earnings	612,8	4,3	608,5
Other payables	19,8	4,4	24,2

1.3.20.2 LAND AT RESEARCH AND DEVELOPMENT

Property, Plant and Equipment were previously understated. Portion 0 of the farm Witput 314, Kenhardt Road, was omitted from Land at Alkantpan. This means the land was omitted from any previous revaluation done. The effect of the error is as follows:

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

	Rm		
	AFTER ADJUST- MENT	ADJUST- MENT	BEFORE ADJUST- MENT
Property, plant and equipment	1 520,1	4,0	1 516,1
Revaluation reserve	1 448,5	4,0	1 444,5

1.3.21 REPORTING FRAMEWORK

Statements of Generally Accepted Accounting Practice were withdrawn by the Accounting Practices Board on 1 December 2012.

National Treasury instructed that those Government Business Enterprises that apply Statements of SA GAAP, as an interim measure, should continue to apply Statements of GAAP (as issued at 1 April 2012) until the Accounting Standards Board has undertaken extensive research to identify the most appropriate reporting framework.

The Accounting Standards Board (ASB) has subsequently issued Directive 12 in August 2015. This Directive gives guidance on the selection of an appropriate reporting framework by public entities. Paragraph 11 of Directive 12 provides criteria for determining the appropriate reporting framework, which will either be International Financial Reporting Standards (IFRS) or Generally Recognised Accounting Practice (GRAP). Paragraph 25 of the Directive prescribes that the application of an appropriate reporting framework is for periods commencing on, or after 1 April 2018.

Statements of GAAP are drawn from International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRICs and SICs). Section 56 of the Financial Management of Parliament Act (Act No 10 of 2009) requires that Parliament prepares its financial statements in accordance with standards of generally recognised accounting practice. "Standards of generally recognised accounting practice" in that Act means an accounting practice complying with the standards approved by the Minister of Finance on the advice of the Accounting Standards Board.

The effect of the APB not adopting any Standards or amendments after May 2011 means that the following pronouncements or amendments are not included in the GAAP Reporting Framework:

- (a) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement* and any consequential amendments to existing IFRSs or IASs as a result of issuing these IFRSs.
- (b) IAS 27 *Separate Financial Statements* (issued in May 2011) and IAS 28 *Investments in Associates and Joint Ventures* (issued in May 2011).
- (c) IAS 19 *Employee Benefits* as revised in June 2011.
- (d) Amendments to existing pronouncements *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) issued in June 2011.
- (e) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* issued in October 2011.
- (f) Amendments to existing pronouncements *Mandatory Effective Date and Transition Disclosures* (Amendments to IFRS 9 and IFRS 7) issued in December 2011.
- (g) Amendments to existing pronouncements *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) issued in December 2011.
- (h) Amendments to existing pronouncements *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) issued in December 2011.
- (i) Amendments to existing pronouncements *Government Loans* (Amendments to IFRS 1) issued in March 2012.
- (j) *Annual Improvements to IFRSs (2009-2011 Cycle)* issued in May 2012.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

2. PROPERTY, PLANT AND EQUIPMENT

GROUP	2017					
	LAND	BUILDINGS	PLANT, MACHINERY & EQUIPMENT	OFFICE EQUIPMENT, FURNITURE & COMPUTERS	VEHICLES & VESSELS	TOTAL
	Rm	Rm	Rm	Rm	Rm	Rm
Cost	433,7	978,9	129,4	169,1	61,4	1 772,5
Accumulated depreciation	-	(49,1)	(81,1)	(131,8)	(47,4)	(309,4)
Carrying value as at 31 March 2017	433,7	929,8	48,3	37,3	14,0	1 463,1

Current year movements:

Balance at the beginning of the year	433,7	971,1	53,5	43,6	18,2	1 520,1
Additions	-	6,1	8,5	10,9	1,0	26,5
Disposals	-	-	(0,8)	(0,1)	-	(0,9)
Depreciation	-	(47,4)	(12,9)	(17,1)	(5,2)	(82,6)
Carrying value as at 31 March 2017	433,7	929,8	48,3	37,3	14,0	1 463,1

GROUP	2016					
	Rm	Rm	Rm	Rm	Rm	Rm
Cost	433,7	972,8	122,4	159,9	60,4	1 749,2
Accumulated depreciation	-	(1,7)	(68,9)	(116,3)	(42,2)	(229,1)
Carrying value as at 31 March 2016	433,7	971,1	53,5	43,6	18,2	1 520,1
Current year movements:						
Balance at the beginning of the year	373,0	697,2	50,6	47,9	20,4	1 189,1
Additions	-	2,1	13,5	12,7	3,3	31,6
Assets held for sale	-	(0,5)	-	-	-	(0,5)
Disposals	-	-	(0,3)	(0,1)	(0,1)	(0,5)
Revaluation	60,7	304,1	-	-	-	364,8
Depreciation	-	(31,8)	(10,3)	(16,9)	(5,4)	(64,4)
Carrying value as at 31 March 2016	433,7	971,1	53,5	43,6	18,2	1 520,1

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	GROUP	
	2017	2016
	Rm	Rm
Depreciation		
Gross depreciation	84,1	68,0
Less: Change in the estimated useful life	(1,6)	(3,6)
	<u>82,5</u>	<u>64,4</u>

In line with the requirements of IAS 16, the Group reviewed the useful life, residual values and method of depreciation for all assets still in use. Based on the latest available and reliable information, there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R1,6 million (2016: R3,6 million decrease).

OTHER MATTERS

Included in the Group's value of plant, machinery and equipment, are assets at contractors with a cost of R3,9 million (2016: R3,9 million) that are fully depreciated. These assets are no longer in use.

Land and buildings were fair valued for the first time on 31 March 2013. Had these assets not been fair valued, their carrying values would have been as follows:

Land : R 12,7 million (2016 : R12,7 million)

Buildings : R120,4 million (2016 : R123,9 million)

Included in buildings are:

IMT building erected on leasehold premises with a net book value of R45,2 million (2016 : R44,0 million). The leasehold premises comprises a portion in extent 1,4475 ha of Erf 3779 in Simon's Town, which is leased from the Department of Public Works.

The Paardefontein building erected on land owned by the State, with a net book value of R3,3 million (2016 : R3,4 million). The premises comprises a portion in extent 51,3902 ha of portion 6 and 7 of the farm Paardefontein 282, registration division JR, City of Tshwane Metropolitan Municipality, which is registered in the name of the State.

Assets with a carrying amount of R0,4 million (2016 : R0,5 million) at year end are held for disposal. The process of disposal is in place, and will be implemented within the next 12 months.

The assets held for sale are residential properties held by Armscor Research and Development Department at Prieska, Northern Cape, amounting to R0,4 million (2016 : R0,5 million). These properties will be sold to potential buyers, with the lessees having the first option to buy.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

3. INVESTMENT PROPERTY

	GROUP LAND 2017 Rm
Fair value	72,9
Fair value as at 31 March 2017	72,9
Balance at the beginning of the year	72,9
Fair value adjustment	-
Fair value as at 31 March 2017	72,9
	2016
Fair value	72,9
Fair value as at 31 March 2016	72,9
Balance at the beginning of the year	110,0
Fair value adjustment	(37,1)
Fair value as at 31 March 2016	72,9

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2017. The appraiser holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The land was fair valued using the Comparable Sales Method. Expenditure incurred relating to land amounted to R Nil (2016: R7 500).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

4. INTANGIBLE ASSETS

	GROUP		
	COMPUTER SOFTWARE	INTANGIBLE ASSETS UNDER DEVELOPMENT 2017	TOTAL
		Rm	Rm
Cost	10,7	7,0	17,7
Accumulated amortisation	(4,9)	-	(4,9)
Carrying value as at 31 March 2017	5,8	7,0	12,8
Current year movements:			
Balance at the beginning of the year	4,0	3,1	7,1
Additions	2,9	3,9	6,8
Amortisation	(1,1)	-	(1,1)
Carrying value as at 31 March 2017	5,8	7,0	12,8
	2016		
Cost	7,8	3,1	10,9
Accumulated amortisation	(3,8)	-	(3,8)
Carrying value as at 31 March 2016	4,0	3,1	7,1
Current year movements:			
Balance at the beginning of the year	0,9	-	0,9
Additions	3,4	3,1	6,6
Amortisation	(0,4)	-	(0,4)
Carrying value as at 31 March 2016	4,0	3,1	7,1

Contractual commitments for acquisition of intangible assets R34,1 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

5. INVESTMENT IN A JOINT VENTURE

Armcor entered into a 33,3% partnership on 30 August 1999 with the South African Aerospace, Maritime and Defence Industries Association (AMD) and the Commercial Aviation Association of Southern Africa (CAASA). The partnership's main business is hosting the Africa Aerospace and Defence air show, which take place biennially.

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. The following amounts represent the assets, liabilities, income and expenses of AAD.

	2017	2016
	Rm	Rm
Summarised statement of financial position		
Assets	10,7	6,1
Non-current assets	0,1	-
Current assets, including cash and cash equivalents of R6,7 million (2016: R5,6 million)	10,6	6,1
Liabilities	0,7	8,7
Current liabilities, including financial liabilities of R0,7 million (2016: R1,0 million)	0,7	8,7
Non-current liabilities	-	-
Equity	10,0	(2,6)
Group proportionate ownership	33,3%	33,3%
Group carrying amount of investment	3,1	-
Summarised statement of profit or loss		
Revenue	62,5	-
Cost of sales	(8,3)	-
Other income	0,9	0,3
Operating expenditure	(33,5)	(2,9)
Investment revenue	0,6	0,1
Profit/(loss) for the year	22,2	(2,6)
Group proportionate ownership	33,3%	33,3%
Share of (loss)/profits	6,5	(0,8)
Dividends received for the year	3,4	0,9
Total investment in Joint Venture	3,1	-

There are no contingent liabilities relating to the Group's interest in the Joint Venture, and no contingent liabilities in the Joint Venture itself.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

6. RETIREMENT BENEFITS

6.1 ARMSCOR DEFINED CONTRIBUTION PENSION FUND AND PROVIDENT FUND

6.1.1 PENSION AND PROVIDENT SCHEMES

The Group contributes towards, and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by, and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard, for the remaining 6 members, is R Nil (2016: R Nil), as the pensioners account in the pension fund is sufficiently funded.

GROUP	
2017	2016
Rm	Rm
65,6	62,7

The amount of contributions to the above scheme

6.1.2 GOVERNMENT EMPLOYEES PENSION FUND-DOCKYARD

The Group contributes towards the Government Employees Pension Fund, which offer benefits based on the contributions by, and made on behalf of every member, as well as investment yields.

GROUP	
2017	2016
Rm	Rm
12,5	12,4

The amount of contributions to the above scheme

6.2 POST-RETIREMENT MEDICAL BENEFITS

The IAS19 valuation of the Group's post employment benefits was carried out at 31 March 2017. Based on the latest projection performed on 31 March 2017, the present value of the obligation is R109,4 million (2016: R126,7 million). Based on the projection performed on 31 March 2017, financial assets held aside specifically for this purpose are in excess of the accrued liability. The financial assets held aside are R131,4 million (2016: R129,1 million). During the 2015/16 financial year, Armscor settled some of its financial liabilities relating to the defined medical benefit, and the amount settled was R605,6 million. This resulted in a decrease of both the financial liability and financial assets.

Armscor does not have any further obligation for post-retirement medical benefits towards those members who accepted the settlement, except for the monthly allowances being paid to active members while remaining in Armscor's service.

	GROUP				
	2017	2016	2015	2014	2013
	Rm	Rm	Rm	Rm	Rm
Present value of funded obligations	218,6	121,9	718,6	607,5	569,5
Net obligation	218,6	121,9	718,6	607,5	569,5
Unrecognised actuarial gains/(losses)	(82,0)	4,8	(147,2)	(94,4)	(109,4)
Unrecognised past service gains	-	-	-	-	0,2
Net liability in statement of financial position	136,6	126,7	571,4	513,1	460,3

Figures above include Armscor Corporate, Armscor Research & Development and Armscor Dockyard (Appointed under Armscor's conditions of employment).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

6.2.1 POST-RETIREMENT MEDICAL BENEFITS (EXCLUDING ARMSCOR DOCKYARD PERSONNEL TRANSFERRED FROM THE SOUTH AFRICAN NAVY)

The Group currently provides post retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

	GROUP	
	2017	2016
	Rm	Rm
Reconciliation of the present value of the funded obligations (Group – excluding Dockyard)		
Opening balance	102,4	548,3
Current service cost	1,8	7,2
Interest cost	8,9	21,7
Settlements	-	(605,6)
Expected employer benefit payments	(3,2)	(8,6)
Expected closing balance	109,9	(37,0)
Actuarial (gain)/loss	(0,5)	129,5
Settlement loss	-	9,9
Actual closing balance	109,4	102,4
Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss		
Opening balance	102,4	548,3
Expense recognised in employee remuneration costs	10,2	168,3
Employer benefit payments	(3,2)	(8,6)
Settlement	-	(605,6)
	109,4	102,4
Net benefit expense (recognised in employee remuneration costs)		
Current service cost	1,8	7,2
Interest cost	8,9	21,7
Actuarial (gain)/loss recognised	(0,5)	129,5
Settlement loss recognised	-	9,9
	10,2	168,3
The main actuarial assumptions are:		
Discount rate	9,9%	10,0%
Health care cost inflation	8,8%	9,0%
CPI inflation	6,8%	7,5%
Average retirement age	63	60

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

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	75,6	86,4	99,6
Discount rate	99,6	86,4	75,8
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	79,2	90,9	105,4
Discount rate	105,7	90,9	79,2

6.2.2 POST-RETIREMENT MEDICAL BENEFITS FOR ARMSCOR DOCKYARD PERSONNEL TRANSFERRED FROM THE SA NAVY

The Group also provides post-retirement health care benefits to the Dockyard retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

The IAS19 valuation of the Dockyard's post employment benefits was carried out on 31 March 2017. This actuarial valuation of the employer's liability as at 31 March 2017, arises as a result of post-employment health care benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed on 31 March 2017, the cash held aside specifically for this purpose is in excess of the accrued liability. The cash held aside is R38,9 million (2016: R35,3 million).

The cash held aside specifically for this purpose at 31 March 2017 is in excess of the accrued liability and is summarised below:

Present value of the unfunded obligation

Net obligation

Less: Cash received

Net (assets) as at 31 March 2017

A projection of results of the valuation as at 31 March 2017 to 31 March 2018 is set out below:

Accrued liability as at 31 March 2017

Interest cost

Service cost

Actuarial loss recognised in profit or loss

Expected employer benefit payments

Projected accrued liability as at 31 March 2018

	GROUP	
	2017	2016
	27,2	24,2
	27,2	24,2
	(38,9)	(35,3)
	(11,7)	(11,1)
	27,2	24,2
	12,8	3,5
	2,2	0,6
	10,8	0,9
	(4,0)	(2,0)
	49,0	27,2

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

	GROUP	
	2017	2016
	Rm	Rm
OPERATING ACTIVITIES		
Reconciliation of present value of the unfunded obligation		
Opening balance	35,8	21,8
Current service cost	0,6	0,4
Interest cost	3,5	1,8
Actuarial loss	94,4	12,8
Expected employer benefit payments	(2,1)	(1,0)
Closing balance	132,2	35,8
Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position		
Present value of unfunded obligation	132,2	35,8
Unrecognised actuarial (losses)	(105,0)	(11,6)
	27,2	24,2
Net benefit expense (recognised in employee remuneration)		
Current service cost	0,6	0,4
Interest cost	3,5	1,8
	4,1	2,2
The main actuarial assumptions are:		
Discount rate	9,8%	10,0%
Health care cost inflation	8,8%	9,0%
CPI inflation	6,8%	7,5%
Average retirement age	63	65

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	122,8	132,2	140,5
Discount rate	155,9	132,2	113,5
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	35,8	35,8	35,8
Discount rate	39,7	35,8	32,6

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

6.2.3 SUMMARY OF DEFINED MEDICAL BENEFIT EXPENSE FOR ALL FUNDS

	GROUP	
	2017	2016
	Rm	Rm
Defined medical benefit expense (post-retirement) included in employee cost:		
Current service cost	2,4	7,6
Interest cost	12,4	23,5
Actuarial cost	0,5	129,5
Settlement loss	-	9,9
	15,3	170,5

7. INVENTORIES

Raw materials, components	1,1	1,2
Work in progress	1,4	1,4
Consumables	4,2	4,1
Finished goods	22,9	0,8
	29,6	7,5

The amount of inventories written off during the year is R Nil (2016: R81 889), inventories expensed during the year is R13,0 million (2016: R14,0 million).

8. TRADE AND OTHER RECEIVABLES

Trade receivables	80,4	75,4
Trade receivables - related parties	55,9	53,7
Total trade receivables	136,3	129,1
Other receivables	12,5	54,8
Other receivables - related parties	12,6	12,5
Personnel loans	-	-
Interest receivable on investments	1,3	3,5
	162,7	199,9

As at 31 March 2017 the ageing of trade receivables was as follows:

Neither past due nor impaired:	47,2	68,2
30 - 60 days	32,6	28,5
60 - 90 days	17,2	10,8
Past due but not impaired:		
90 - 120 days	19,0	11,5
120 days and older	20,3	10,1
	136,3	129,1

Neither past due nor impaired trade receivables relates to goods and services provided to debtors. Management has made an assessment, and they concluded that there are no indications of impairment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

Movement in the allowance for doubtful debts:

Balance at the beginning of the year
 Amounts written off during the year
 Impairment losses recognised on receivables

Balance at the end of the year

GROUP	
2017	2016
Rm	Rm
187,3	153,9
(9,5)	(1,7)
38,3	35,1
216,1	187,3

Terms and conditions of the above financial assets:

Trade and other receivables are non-interest bearing and are generally on thirty to ninety days terms.

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

For terms and conditions relating to related party receivables, refer to related party disclosure note.

9. CASH AND SHORT-TERM DEPOSITS

Cash and cash equivalents consists of:

Cash at banks and in hand
 Short-term deposits

154,9	65,8
610,0	800,0
764,9	865,8

Included in cash and short-term deposits is an amount of R12,1 million (2016: R14,7 million), with respect to cash allocated to the insurance reserve.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash reserves are earmarked for the upgrading of systems, capital expenditure approved but not yet contracted and other maintenance requirements.

10. ORDINARY SHARE CAPITAL

Authorised

- 1 000 000 000 ordinary shares of R1 each

Issued

- Ordinary

Share Capital is under the control of the Executive Authority.

GROUP	
2017	2016
Rm	Rm
1 000,0	1 000,0
75,0	75,0

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

11. DEFERRED INCOME

Deferred income relates to cash, stock and assets received from the Department of Defence, of which the recognition of the income needs to be aligned with the incurring of the expenditure, or the fulfillment of the conditions of receipt.

	GROUP	
	2017	2016
	Rm	Rm
Non-current liabilities	42,3	54,3
Current liabilities	36,3	46,9
	78,6	101,2
Trade payables	96,4	41,2
Trade payables - related parties	33,5	87,5
Other payables	100,4	128,9
Other payables - related parties	21,5	19,8
	251,8	277,4
Trade payables	95,4	128,7
Other payables	121,8	148,7
Current	217,2	277,4
Trade payables		
> 30 Days	33,7	-
> 60 Days	0,9	-
	251,8	277,4

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing, and are normally settled on thirty day term.

For terms and conditions relating to related parties, refer to related party disclosure note.

13. PROVISIONS

GROUP	OPENING BALANCE	ADDITIONS DURING THE YEAR	UTILISED DURING THE YEAR	UNUTILISED PORTION REVERSED	TOTAL
	Rm	Rm	2017 Rm	Rm	Rm
RECONCILIATION OF PROVISIONS					
Provision for leave	60,4	41,4	(32,6)	(7,8)	61,4
Provision for performance remuneration	57,5	59,7	(57,1)	(0,3)	59,8
	117,9	101,1	(89,7)	(8,1)	121,2

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

13. PROVISIONS (CONTINUED)

GROUP	OPENING BALANCE	ADDITIONS DURING THE YEAR	UTILISED DURING THE YEAR	UNUTILISED PORTION REVERSED	TOTAL
	Rm	Rm	Rm	Rm	Rm
Provision for leave	56,7	38,2	(24,7)	(9,8)	60,4
Provision for performance remuneration	53,2	57,5	(51,9)	(1,3)	57,5
	109,9	95,7	(76,6)	(11,1)	117,9

Performance remuneration for 2016/2017 will be paid upon completion of the performance evaluation process.

14. DEFERRED TAXATION

The deferred taxation liability is attributable to the following:

Fair value adjustment on investments

The movement between the balances of deferred taxation at the beginning of the year and the end of the year can be analysed as follows:

At the beginning of the year

Current year movement on fair value adjustment

- Current year movement on fair value adjustment

Closing balance

NORMAL TAXATION

Current tax

- Current year

- Prior year

Deferred tax

- Current year movement on fair value adjustment

Reconciliation of tax expense

Accounting profit before income tax

Non-taxable income

Non-deductible expenditure

Net capital gain

Distribution (taxable in hands of the beneficiary)

Taxable income

Current income tax at 41% (2016: 41%)

Total normal income tax

GROUP	
2017	2016
Rm	Rm
5,0	5,0
5,0	17,8
-	(12,8)
-	(12,8)
5,0	5,0
1,2	(0,2)
1,2	-
-	(0,2)
-	(12,8)
-	(12,8)
1,2	(13,0)
4,2	10,4
(6,6)	(64,2)
5,5	60,8
(0,3)	35,2
-	(42,2)
2,8	-
1,2	-
1,2	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

	GROUP	
	2017	2016
	Rm	Rm
Reconciliation of income tax (receivable)		
Outstanding at beginning of year	(25,9)	(2,1)
Normal income tax for current year	1,3	(0,2)
Income tax paid during the year	(1,4)	(23,7)
Penalties and interest levied by SARS	-	0,1
Income tax (receivable) at the end of the year	(26,0)	(25,9)
	%	%
Reconciliation of income tax rate		
Current year's charge as a percentage of income before taxation	27,7	-
Non taxable income	63,9	252,8
Non deductible expenditure	(53,2)	(239,5)
Capital gains	2,6	(138,6)
Distribution taxable in hands of the beneficiary	-	166,3
Standard income tax rate	41,0	41,0

Taxation disclosed above relates to tax (receivable)/payable by the Armscor Medical Benefit Fund as Armscor is exempted from paying income tax.

15. FINANCIAL INSTRUMENTS

15.1 INTRODUCTION

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable, which arise directly from its operations.

The principle market risks to which the Group is exposed through financial instruments are:

- Foreign exchange transactions
- Interest rates
- Credit risk
- Liquidity risk
- Investment risk

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

15.2 CATEGORY ANALYSIS OF FINANCIAL INSTRUMENTS

	2017		2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	Rm	Rm	Rm	Rm
Assets				
Loans and receivables	927,6	927,6	1 065,7	1 065,7
Trade and other receivables	162,7	162,7	199,9	199,9
Cash and cash equivalents	713,9	713,9	815,8	815,8
Cash allocated to insurance reserve	12,1	12,1	14,7	14,7
Cash allocated to Dockyard post-retirement benefit	38,9	38,9	35,3	35,3
Designated at fair value through profit and loss	131,4	113,9	129,1	108,4
Government and other bonds	18,4	17,4	17,9	17,0
Shares - listed	55,6	48,9	56,9	46,2
Deposits at banking institutions	39,2	39,1	38,1	38,1
International investments	18,2	8,5	16,2	7,1
	1 059,2	1 041,5	1 194,8	1 174,1
Liabilities	(251,8)	(251,8)	(277,4)	(277,4)
Trade and other payables	(251,8)	(251,8)	(277,4)	(277,4)
	807,2	789,8	917,4	896,7

15.3 INTEREST RATE MANAGEMENT

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term loan and cash equivalents. In the ordinary course of business, the Group receives cash from the transfer payment to fund its operations, as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

15.4 CREDIT RISK MANAGEMENT

The Group only deposits cash surpluses with major banks of high quality credit standing.

Trade receivables comprise a widespread customer base. The granting of credit is controlled by well-established criteria, which are reviewed and updated on an ongoing basis.

At year end, the Group did not consider 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 Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

15.5 LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of call accounts. The Group maintains a sufficient level of liquidity to be able to meet all its obligations. The Group has no overdraft facility but has other facilities which include guarantees and letters of credit.

15.6 CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders. The primary objective of the Group's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. No changes were made in the objective, policies or processes for the year ended 31 March 2017. The Group does not have external imposed capital requirements. The Group does not make use of capital from outside providers other than trade and other payables and have sufficient cash and cash equivalents to cover its net debt.

	GROUP	
	2017	2016
	Rm	Rm
Trade and other payables	(251,8)	(277,4)
Cash and cash equivalents	764,9	865,8

15.7 INTEREST RATE RISK

The Group's exposure to the risk in market interest rates relates primarily to interest received on call accounts and fixed deposits.

Interest rate risk (sensitivity analysis)

The following table demonstrates the sensitivity to a change in interest rates with all other variables held constant.

	Increase/decrease in basis points	Increase/decrease in surplus for the year and equity
2017	±50	±4,4 million
	±25	±2,2 million
2016	±50	±R4,5 million
	±25	±R2,3 million

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

15.8 INVESTMENT RISK

Investments in equities are valued at fair value and therefore susceptible to market fluctuations.

Investments are managed with the aim of maximising the Group's returns while limiting risk to acceptable levels.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

15.9 FOREIGN CURRENCY RISK

The Group did not hedge foreign exchange fluctuations.

Foreign currency risk is the risk that the value of an instrument will fluctuate in South African Rands due to changes in foreign exchange rates.

The Group is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the Group and transactional currency exposures. The currency giving rise to the risk is primarily US dollars (USD).

These investments are monitored to ensure that the exposure to foreign currency risk is maintained within internal diversification guidelines.

16. REVENUE

Sale of goods - Research & Development	
Sale of goods - Armscor Corporate	
Services revenue - Armscor Corporate	
Services revenue - Armscor Dockyard	
Services revenue - Research & Development	
Contributions - Medical Benefit Fund	

GROUP	
2017	2016
Rm	Rm
13,2	15,1
-	12,3
9,7	10,9
6,8	-
373,6	343,7
-	0,2
403,3	382,2

17. COST OF SALES

Sale of goods

Sale of goods - Armscor Corporate	
Sale of goods - Research & Development	

Rendering of services

Services revenue - Research & Development	
---	--

Total

Sale of goods	
Rendering of services	

-	6,2
9,3	8,4
9,3	14,6
126,0	101,0
9,3	14,6
126,0	101,0
135,3	115,6

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

18. GROSS PROFIT

	GROUP	
	2017	2016
	Rm	Rm
Armcor Corporate*	9,7	17,0
Armcor Dockyard	6,8	-
Research & Development	251,5	249,4
Medical Benefit Fund	-	0,2
	268,0	266,6

19. OTHER OPERATING INCOME

Armcor Corporate rental income*	24,4	55,6
Armcor Corporate other income*	20,7	16,0
Research & Development other income	11,6	12,3
Armcor Dockyard	0,2	0,4
Armcor Medical Benefit Fund dividend income	1,5	2,4
Armcor Medical Benefit Fund profit on investment sold	5,1	61,5
Armcor Medical Benefit Fund fair value adjustment on investments	(3,1)	(50,8)
	60,4	97,4

20. ALLOCATION FOR OPERATING EXPENDITURE (GOVERNMENT GRANT)

Transfer payment - Armcor Corporate*	654,2	684,0
Transfer payment - Armcor Dockyard	206,0	174,7
	860,2	858,7

21. OPERATING EXPENSES

Armcor Corporate*	867,4	446,5
Armcor Dockyard	211,7	-
Research & Development	311,7	186,6
Armcor Medical Benefit Fund	4,9	622,7
	1 395,7	1 255,8

* Armcor Corporate relates to Head Office, including AB Logistics results.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

24. LOSS PROFIT AFTER TAX

	GROUP	
	2017	2016
	Rm	Rm
After elimination of inter-group transactions		
Armcor Corporate	(82,5)	385,0
Armcor Dockyard	1,3	-
Research & Development	(48,6)	75,1
Armcor Medical Benefit Fund	2,9	(581,9)
	(126,9)	(121,8)
The following figures are divisional contributions before elimination of inter-divisional transactions, revaluation of assets and excluding the loan write-off		
Armcor Corporate	(123,0)	325,6
Armcor Dockyard	(1,7)	(28,6)
Research & Development	(8,1)	125,4
Armcor Medical Benefit Fund	2,9	(581,9)
	(129,9)	(159,5)
Inter-divisional transactions include office rental, service level agreement and transfer payments.		
25. CASH GENERATED FROM OPERATIONS		
Loss before taxation	(125,6)	(169,3)
Adjustments for:		
Depreciation and amortisation	83,7	64,9
Dividends received	(4,9)	(3,3)
Impairment and assets written off	1,0	0,4
Gain on investment sold	-	-
Fair value adjustments	3,1	88,0
Share of loss/(profit) in joint venture	(3,1)	1,2
Profit on sale of assets	(5,1)	(61,6)
Loss on investment sold	2,8	9,8
Finance income	(75,0)	(73,7)
Movements in retirement liabilities	9,9	(444,7)
Movements in provisions	3,3	8,0
Changes in working capital:		
Trade and other receivables	34,7	(100,2)
Inventories	(22,1)	0,6
Trade and other payables	(23,2)	61,2
Deferred income	(22,6)	(27,8)
	(143,1)	(646,5)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

26. CONTRACTUAL COMMITMENTS

GROUP	
2017	2016
Rm	Rm
94,3	200,4

Projected outstanding commitments in respect of orders placed for expected deliveries.

Contractual commitments which may arise out of these contracts are covered in full by means of financial authorisations. In other cases cover is obtained by means of back-to-back orders amounting to R54,8 million (2016: R175,0 million).

Commitments relating to the Forte Hare School of Science and Technology Discovery Centre programme, which is designed to encourage learners to pursue and excel in Mathematics, Science and Technology related fields. The commitment is as follows:

2017/18: R600 000

2018/19: R400 000

27. CAPITAL COMMITMENTS

GROUP	
2017	2016
Rm	Rm
154,6	84,1

Authorised capital expenditure

Capital expenditure approved but not yet contracted

Property, plant and equipment

This committed expenditure relates to plant and equipment, and will be financed by retained surpluses, existing cash resources and funds internally generated.

28. OPERATING LEASE COMMITMENTS – GROUP AS LESSEE AND LESSOR

Lessee disclosure

The Group has entered into operational leases on certain motor vehicles and items of machinery and equipment. Most of the leases have expired and are running on a month to month basis. There are no restrictions placed upon the lessee by entering into these leases. The lease charges paid for the year is R2,1 million (2016: R1,8 million) of which R0,7 million (2016: R0,4 million) relates to contingent rentals on operating leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2017 are as follows:

GROUP	
2017	2016
Rm	Rm
0,8	1,0
0,9	1,4
1,7	2,4

Within one year

After one year but not more than five years

Lessor disclosure

The Group entered into an operating lease in regards to office space and parking. The lease has expired and is on a month to month basis. The Group is in a process of entering into a new lease agreement with the existing tenant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

29. CONTINGENT LIABILITIES

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R Nil million (2016: R0,2 million), and to a foreign contractor amounting to R27,9 million (USD 2,1 million) [2016: R30,2 million USD 2,0 million] for an advance payment received.

Bank guarantees have been issued on behalf of Armscor in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R8,4 million (2016: R8,6 million), with regard to local guarantees.

Alkantpan

On 31 March 2017, the Group had a contingent liability with respect to the rehabilitation of the test range at Alkantpan.

In terms of the National Environmental Management Act (Act 107 of 1998), section 28 (1), which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimize degradation of the environment. Certain options were investigated, and as no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility which is partially funded by the 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.

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 environmentally friendly way forward, and to ensure legislative compliance to the Act.

Meetings are scheduled as and when required, to identify new risks or issues. The last meeting of the Alkantpan Environmental and Conservation Steering Committee was held on 12 August 2013. No new issues or risks were reported at the meeting, 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 R2 501 197 (2016: R2 352 421).

30. INFORMATION REQUIRED IN TERMS OF SECTION 55(2) OF THE PUBLIC FINANCE MANAGEMENT ACT

An amount of R9,5 million (2016: R1,7 million) relating to unrecoverable debts was written off during the year.

Expenditure amounting to R3 million (2016: R823) was incurred during the year, and is deemed to be fruitless and wasteful. The expenditure was as a result of interest paid on late payments (R733), uninsured damages to third party client property (R0,8 million) and expenditure with no corresponding benefit to the organisation (R2,1 million). Processes are underway to determine appropriate action to be taken.

Armscor applied a 25% Black equity selection criterion as a requirement, in accordance with the supply chain policy of the Group. Armscor engaged extensively with National Treasury on this matter, which culminated in an application made to National Treasury for exemption from the Preferential Procurement Policy Framework Act (PPPFA), 2000 and the Procurement Regulations, 2011. The application of this principle was stopped from all tenders published from 1 September 2014. However, as this selection criterion was deemed to be in conflict with the PPPFA, the total value of contracts placed of R1,9 million (2016: R13,2 million) while applying this principle, is deemed to be irregular expenditure.

In addition, irregular expenditure of R7,8 million was incurred during the year as a result of procurement that occurred without following the competitive bidding process. R4,7 million of this expense relate to security services contracts that were extended pending finalisation of discussions to transfer the physical security of its head office and strategic facilities to the Department of Defence, whilst R2,2million was treated as single source procurement without the required approval.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

	GROUP	
	2017	2016
	Rm	Rm
Opening balance	-	103,0
Irregular expenditure - relating to current year	9,7	13,2
Less: Amounts condoned by National Treasury	-	(116,2)
	9,7	-

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS

	FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
Notes			4	5	6	
	R	R	R	R	R	R

31 MARCH 2017

Directors' Emoluments

Executive Directors

JG Grobler	-	1 750 164	385 991	117 408	320 262	2 573 825
KPE Wakeford	-	2 704 527	550 000	150 000	316 245	3 720 772
Subtotal	-	4 454 691	935 991	267 408	636 507	6 294 597

Non-Executive Directors

31 MARCH 2017

Adv VLA de la Hunt	297 920	-	-	-	-	297 920
Dr MB Khanyile	1 051 930	-	-	-	-	1 051 930
Vice Admiral (Ret) RJ Mudimu	1 279 675	-	-	-	-	1 279 675
Amb T Skweyiya	473 540	-	-	-	-	473 540
NM Tyibilika	321 566	-	-	-	-	321 566
RM Vokwana	294 375	-	-	-	-	294 375
Subtotal	3 719 006	-	-	-	-	3 719 006
Total 31 March 2017	3 719 006	4 454 691	935 991	267 408	636 507	10 013 603

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS (CONTINUED)

		FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
	Notes			4	5	6	
		R	R	R	R	R	R
31 MARCH 2016							
JG Grobler		-	1 458 963	975 745	113 388	287 842	2 835 938
JS Mkwanazi	1	-	161 092	-	24 029	26 600	211 721
KPE Wakeford	1	-	2 339 799	-	137 500	274 422	2 751 721
Subtotal		-	3 959 854	975 745	274 917	588 864	5 799 380
31 MARCH 2016							
Adv S Baloyi	9	45 750	-	-	-	-	45 750
Adv VLA de la Hunt		315 300	-	-	-	-	315 300
Dr MB Khanyile		433 125	-	-	-	-	433 125
BMF Mobu	8	2 159	-	-	-	-	2 159
Vice Admiral (Ret) RJ Mudimu		1 281 875	-	-	-	-	1 281 875
Amb T Skweyiya		633 800	-	-	-	-	633 800
NM Tyibilika		332 900	-	-	-	-	332 900
RM Vokwana		319 750	-	-	-	-	319 750
Subtotal		3 364 659	-	-	-	-	3 364 659
Total 31 March 2016		3 364 659	3 959 854	975 745	274 917	588 864	9 164 039

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS (CONTINUED)

	FEEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
Notes			4	5	6	
	R	R	R	R	R	R

EXECUTIVE COMMITTEE EMOLUMENTS

Executive Members

31 MARCH 2017

TT Goduka	-	1 524 168	389 608	148 440	255 441	2 317 657
SP Mbada	-	1 498 956	309 326	185 519	256 920	2 250 721
JL Mzili	-	1 432 092	241 042	131 604	217 965	2 022 703
CVV Ramphele	-	1 357 203	282 525	159 612	272 738	2 072 078
NM Mabaso	-	1 430 622	323 381	11 604	212 353	1 977 960
Dr N Mkaza	-	1 652 865	358 432	11 604	244 908	2 267 809
JS Mkwanaazi	-	2 192 535	491 004	87 456	359 548	3 130 543
GO Radebe	-	1 454 535	346 629	30 912	282 867	2 114 943
TOTAL	-	12 542 976	2 741 947	766 751	2 102 740	18 154 414

Non-Executive Audit Committee Member, not member of Board of Directors

31 MARCH 2017

L Kuse	14 130	-	-	-	-	14 130
TOTAL	14 130	-	-	-	-	14 130

31 MARCH 2016

TT Goduka	-	1 384 575	1 010 757	144 275	233 912	2 773 519
D Griesel	-	100 505	65 267	25 429	18 469	209 670
SP Mbada	-	1 309 551	651 514	180 900	222 637	2 364 602
JL Mzili	-	1 205 889	212 290	131 604	188 389	1 738 172
CVV Ramphele	-	1 125 777	204 308	159 612	235 430	1 725 127
NM Mabaso	-	1 267 116	82 535	11 604	189 717	1 550 972
Dr N Mkaza	2	236 420	-	1 934	35 354	273 708
JS Mkwanaazi	1	1 875 980	594 601	82 877	306 719	2 860 177
GO Radebe	3	564 480	177 787	11 056	107 214	860 537
TC Raman	-	1 099 097	1 031 152	105 243	201 297	2 436 789
TOTAL	-	10 169 390	4 030 211	854 534	1 739 138	16 793 273

Non-Executive Audit Committee Member, not member of Board of Directors

31 MARCH 2016

L Kuse	32 144	-	-	-	-	32 144
TOTAL	32 144	-	-	-	-	32 144

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

INFORMATION APPLICABLE TO NOTE 31

1. Mr JS Mkwanazi was Acting Chief Executive Officer from 19 August 2009 to 30 April 2015; thereafter he resumed his position as Executive Committee member. Mr KPE Wakeford was appointed on contract as Chief Executive Officer from 1 May 2015.
2. Appointed from 1 January 2016 as Executive Committee member (General Manager: Research and Development).
3. Appointed from 1 November 2015 as Executive Committee member (General Manager: Quality).
4. Other benefits include bonus (13th cheque), performance related payments, leave capitalisations and a once-off post-retirement medical buy-out.
5. Allowances include sums paid by way of expense allowances, i.e. motor, cell phone and acting allowance as well as long service awards.
6. Retirement benefits include contributions made to Armscor retirements; medical benefit fund; medical aid; unemployment and funeral scheme.
7. No emoluments are paid to Armscor Defence Institutes ex officio Directors: messrs JG Grobler, SP Mbada and KPE Wakeford.
8. Mr MBF Mobu, Non-Executive Director and Chairperson of the Acquisition Committee of the Board passed away on 8 May 2015.
9. Adv S Baloyi resigned as Non-Executive Director on 17 March 2016.
10. Adv CVV Ramphele retired as General Manager: Corporate Compliance on 30 April 2017.
11. Ms CE Simpson, Ms T Mhlari and Ambassador TJ Ndhlovu were appointed as Non-Executive Directors on 1 May 2017.

Share options

No share options exist, and therefore no share option gains are included in the amount of emoluments received as directors of the Corporation.

Directors' service contracts

Notice periods, in respect of employment contracts of executive directors do not exceed one year. Non executive directors are appointed for a three year period and not bound by employment contracts.

Pensions

Pensions paid or receivable by executive directors are paid or received under defined contribution pension schemes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

32. RELATED-PARTY DISCLOSURES

The Armaments Corporation of South Africa SOC Ltd ("ARMSCOR") is a statutory body, wholly owned by the State, established in terms of the Armaments Development and Production Act (Act No 57 of 1968), and continues its existence through the Armaments Corporation of South Africa Ltd Act (Act No 51 of 2003).

To execute its mandate, Armscor received a Government grant of R860,2 million (2016: R858,7 million) from the State through the Department of Defence, as well as a secondary transfer payment (in terms of a separate Memorandum of Agreement) for services rendered to the Department of Defence to the value of R76,9 million (2016: R64,3 million).

	ISSUED SHARED CAPITAL	
	2017	2016
	R	R
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 33,3% partner in Africa Aerospace and Defence, refer to note 5 for disclosure.

The following table provides the total amount of transactions, which have been entered into by the Group with related parties for the relevant financial year.

	Sales of goods and services to related parties		Purchases of goods from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2017	2016	2017	2016	2017	2016	2017	2016
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Department of Defence	239,8	222,9	69,6	12,9	27,2	48,3	70,1	198,9
<i>State controlled entities</i>								
Major national public entities (Schedule 2 and 3 public entities)	354,1	499,4	93,8	94,7	35,7	26,5	36,0	15,0
National Government	20,7	52,7	15,4	1,2	14,3	7,1	0,1	0,5

Government grant and the secondary transfer payment received from the Department of Defence are not included in the figures above.

Terms and conditions of transactions with related parties

The sales to, and purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2017, the Group has made provision for doubtful debts of R216,1 million (2016: R187,3 million), relating to amounts owed by related parties.

In accordance with Armscor's mandate, acquisition was undertaken on behalf of the Department of Defence. These transactions are set out in annexure A of the financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

	GROUP	
	2017	2016
	Rm	Rm
Reconciliation of transfer payments received from the Department of Defence		
- Primary transfer payment recognised in comprehensive income	860,2	858,7
- Secondary transfer payment received	76,9	64,3
- Funds received for IMT transferred to deferred income due to outstanding conditions	7,9	-
- Funds received for Dockyard transferred to deferred income due to outstanding conditions	7,9	-
- Deferred Income recognised as transfer payment	(21,9)	(26,6)
Total transfer payments reflected - Department of Defence	931,0	896,4

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 has been fair valued at R42,7 million, and accounted for as deferred income, with the purpose of recognising it in line with the utilisation of the assets and stock. During the financial year, an amount of R758 642 (2016: R1,1 million) was recognised as income in accordance with the utilisation thereof, of which R624 939 (2016: R1,1 million) relates to assets and R133 703 (2016: R35 103) relates to stock.

Retirement benefits

Details of the Armscor retirement benefits are disclosed in note 6.

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor 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 2017. One Armscor Executive Director is also ex officio director on the Boards of Erasmusrand Eiendom SOC Ltd, Sportrand SOC Ltd and Oospark SOC Ltd. These companies are dormant.

Key management personnel

Information on the remuneration of all key management personnel is disclosed in note 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017 (Continued)

33. ENTITY FINANCIAL STATEMENT

Entity financial statements have not been prepared, as they are similar to the Group financial statements. The only difference relates to the inclusion of a Joint Venture transaction which amounts to R 6.5 million.

RECONCILIATION OF ENTITY PROFITS TO GROUP PROFIT	Rm
Entity loss after tax	(133,4)
Joint Venture transaction	6,5
Group loss	(126,9)

FINANCIAL POSITION DIFFERENCES:	ENTITY	GROUP
Rm	Rm	Rm
Investment in Joint Venture	0,1	3,1
Equity	2 067,3	2 073,7

34. TRANSFER OF DOCKYARD

On 15 April 2016, the Armscor Board of Directors approved the transfer of the Dockyard, subject to certain conditions. The transfer was as a result of the Minister of Defence and Military Veterans' announcement of the Defence Review in Parliament. The Dockyard is expected to continue operations until the criteria to transfer to Denel are satisfied.

The following is Dockyard's financial position as at 31 March 2017:

	Rm
Assets	
Non-current assets	16,0
Current assets	64,1
Total assets	80,1
Liabilities	
Non-current liabilities	59,4
Current liabilities	45,4
Total liabilities and equity	104,8
Net liabilities	24,7

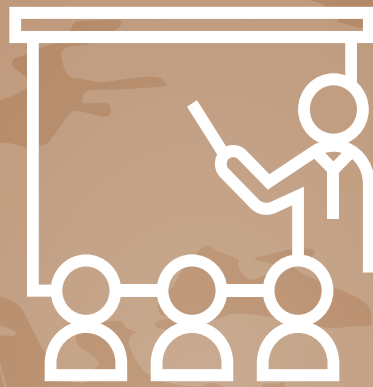
ANNEXURE A

ANNEXURE TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

TOTAL VALUE OF ACQUISITION ACTIVITIES

Government grants for operating expenditure are obtained to undertake acquisition actions on behalf of the Department of Defence. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

	2017	2016	2015	2014	2013
	Rm	Rm	Rm	Rm	Rm
Department of Defence					
- Special Defence Account	5 275,1	4 714,0	4 481,0	5 170,2	3 580,8
- General Defence Account	2 247,9	2 480,0	2 859,6	2 647,7	2 288,6
SA Police Service	1,7	14,0	88,1	94,7	71,8
Other	152,8	45,0	25,5	60,9	72,6
	7 677,5	7 253,0	7 454,2	7 973,5	6 013,8



05

ACRONYMS AND
ABBREVIATIONS

ACRONYMS AND ABBREVIATIONS

AAD	Africa Aerospace & Defence	ICT	Information and Communication Technology
Adv.	Advocate	ISO	International Standards of organisations
AET	Adult Education and Training	IT	Information Technology
AMD	Aerospace, Maritime & Defence Industries Association	IMT	Institute for Maritime Technology
AET	Adult Education and Training	IP	Intellectual Property
Arm Scor	Armaments Corporation of South Africa SOC (Ltd)	LIFT	Lead-In Fighter Trainer
AU	African Union	MAAC	Military Attachés and Advisor Corps
BAF	Brazilian Air Force	MoA	Memoranda of Agreement
B-BBEE	Broad Based Black Economic Empowerment	MOD&MV	Minister of Defence and Military Veterans
BEE	Black Economic Empowerment	MOU	Memorandum of Understanding
BI	Business Intelligence	NCACC	National Conventional Arms Control Committee
BoD	Board of Directors	NDP	National Development Plan, Vision 2013
BRICS	Brazil, Russia, India, China and South Africa	NEHAWU	National Education, Health and Allied Workers' Union
BSC	Balanced Scorecard	NPC	Non-Proliferation Council
CAE	Computer Aided Engineering	NSF	Non-Statutory Forces
CEO	Chief Executive Officer	NSTF	National Science and Technology Forum
COD	Council on Defence	PFMA	Public Finance Management Act
COTS	Commercial off the shelf	PMBOK	Project Management Body of Knowledge
CPD	Continued Professional Development	QSE	Qualifying Small Enterprise
CSI	Corporate Social Investment	R & D	Research & Development
CSIR	Council for Scientific and Industrial Research	Ret	Retired
DDSI	Defence Decision Support Institute	SAAF	South African Air Force
DED	Docking and Essential Defects	SABS	South African Bureau of Standards
DERI	Defence Evaluation Research Institutes	SADC	Southern African Development Countries
DESUP	Defence Engineering and Science University Programme	SADI	South African Defence Industry
DI	Defence Intelligence	SAMHS	South African Military Health Services
DIP	Defence Industry Participation	SAN	Storage Area Network
DMD	Defence Materiel Disposal	SANAS	South African National Accreditation System
DMV	Department of Military Veterans	SANDF	South African National Defence Force
DOD	Department of Defence	SAPS	South African Police Service
DRBD	Defence Research and Development Board	SARS	South African Revenue Services
DST	Department of Science and Technology	SDA	Special Defence Account
dti	Department of Trade and Industry	SDP	Special Defence Package
ECSA	Engineering Council of South Africa	SDP	Strategic Defence Package
EDM	Engineering Development Model	SHE	Safety, Health and Environment
EE	Employment Equity	SHEQ	Safety, Health, Environment and Quality
EME	Exempted Micro Enterprises	SKA	Square Kilometre Array
ERP	Enterprise Resources Planning	SLA	Service Level Agreement
ESD	Enterprise Supplier Development	SMMEs	Small Medium and Micro-sized Enterprises
EW	Electronic Warfare	SOC	State-Owned Company
Flamengro	Fluid and Mechanical Engineering Group	STEM	Science, technology, engineering and mathematics
GAAP	Generally Accepted Accounting Practice	TDP	Talent Development Programme
GBADS	Ground Based Air Defence System	T & E	Test & Evaluation
GDA	General Defence Accounts	TLCM	Through Life Capability Management
GPS	Global Positioning System	UBRD	Ultra Broken Rail Detector
HR	Human Resources	WAN	Wide Area Network
		WOMVASA	Women Military Veterans Association



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